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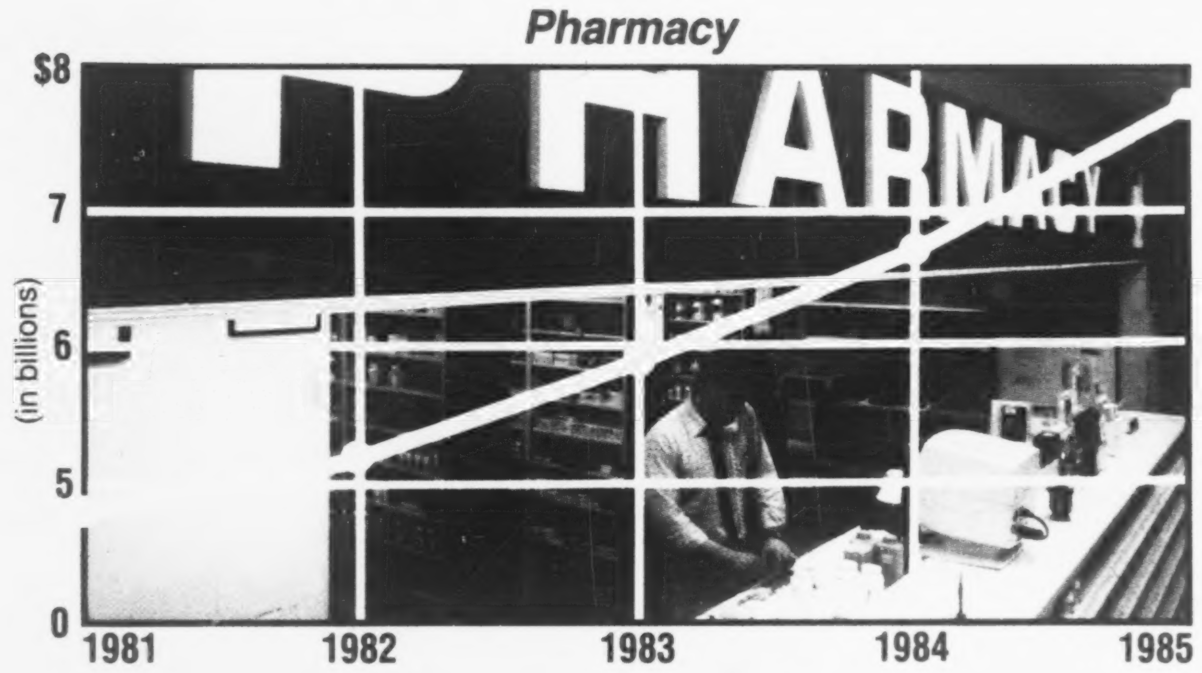
May 12, 1986

DRUG STORE NEWS®

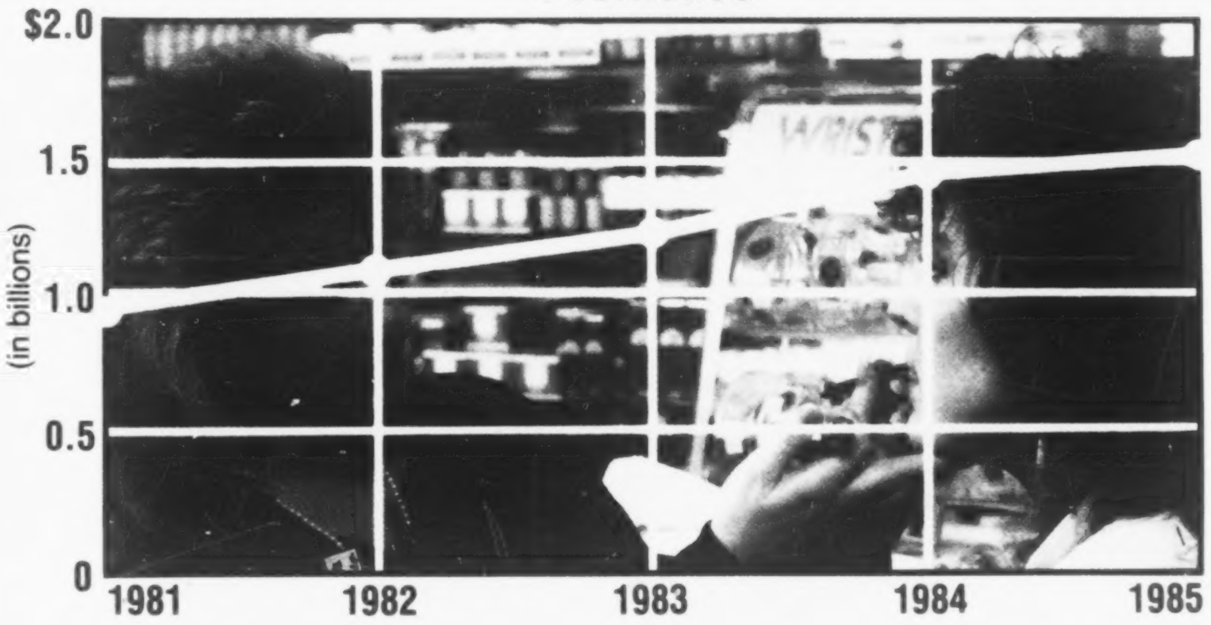
THE 1986 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART TWO

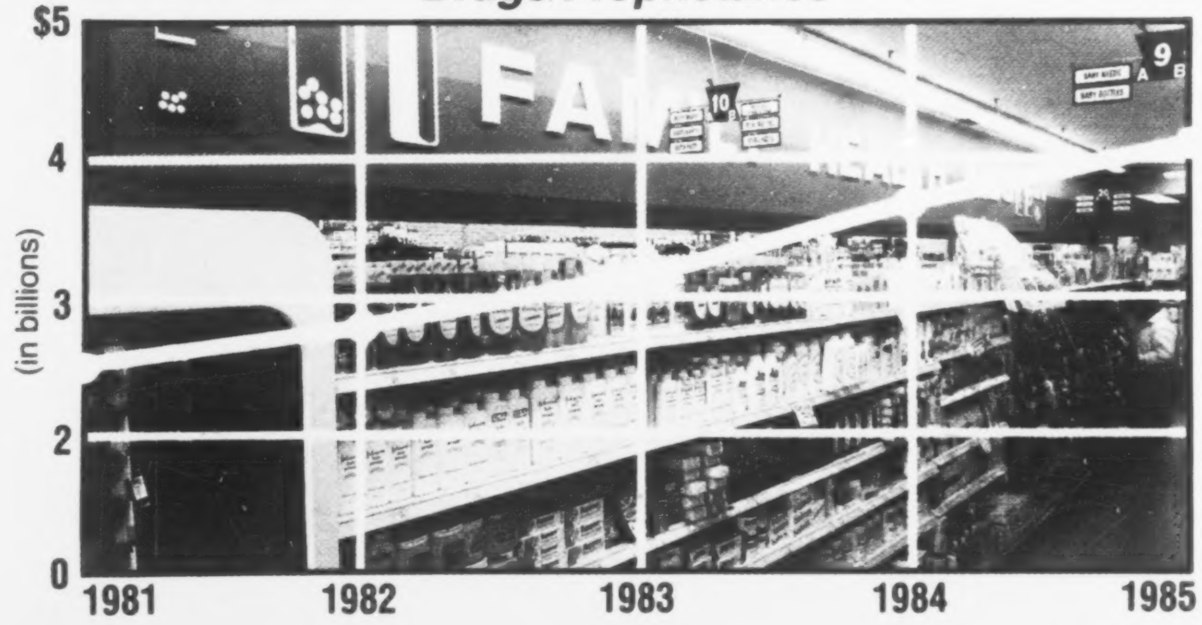
Pharmacy



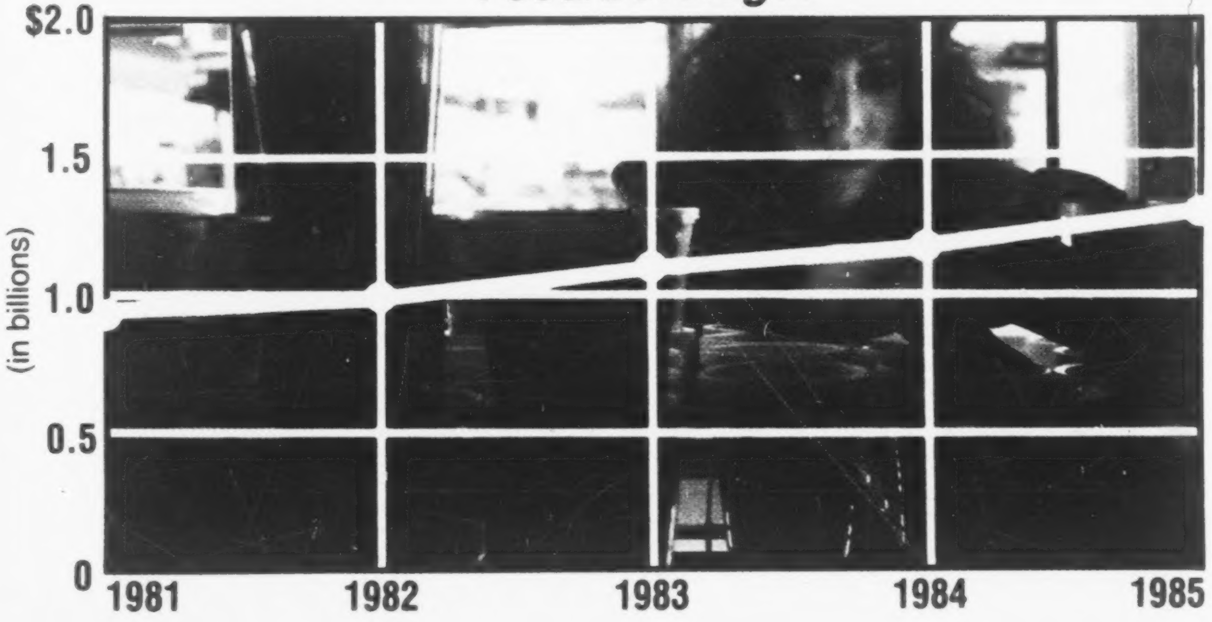
Cosmetics



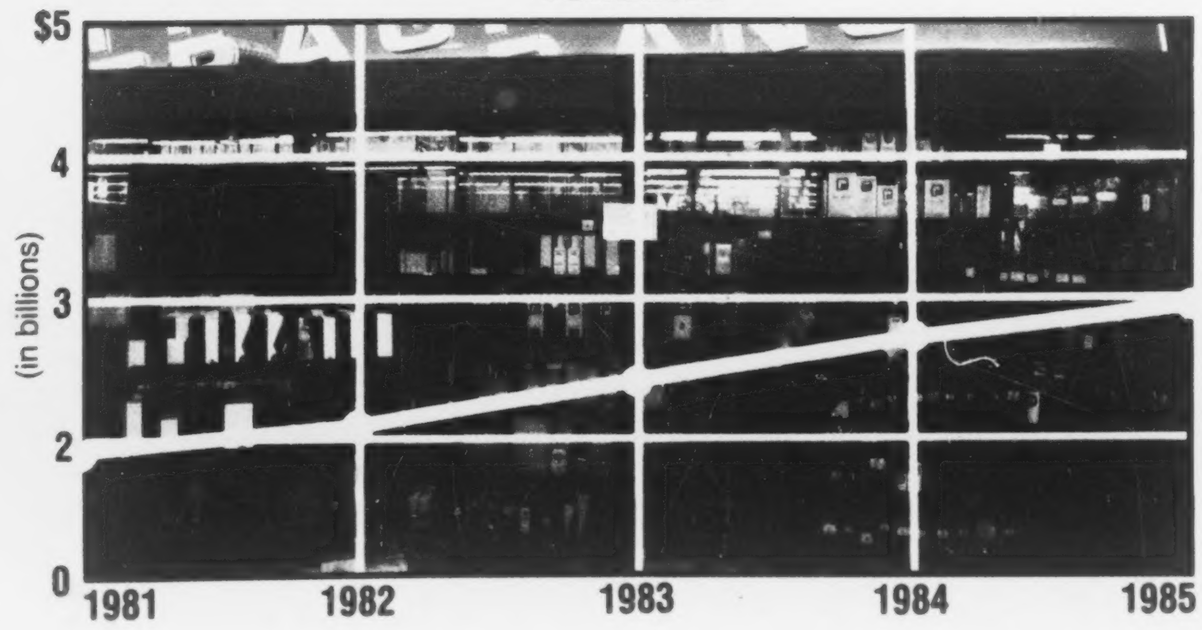
Drugs/Proprietaries



Food/Beverages



Toiletries



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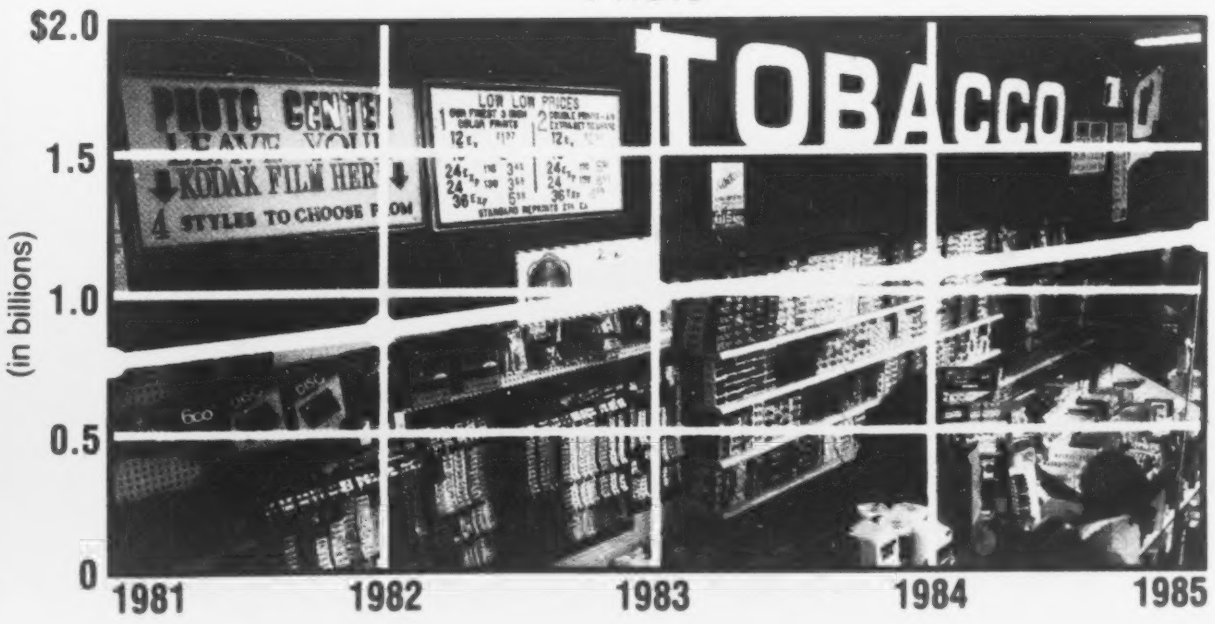

Source: *Drug Store News* survey

Technology Today:
Monitor routine price changes in computer file—p. 94

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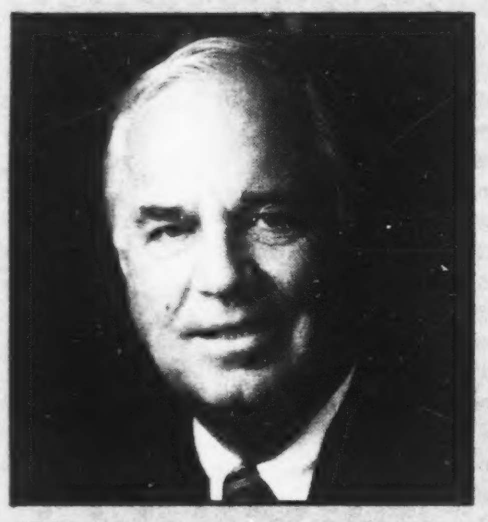
Sunburn prevention—p. 125

Seminar:
Panel discusses computer accessories—p. 109

DRUG STORE NEWS®

Vol. 8/No. 11 **Serving chains, wholesalers and high-volume independents for 57 years.** Published by Lebhar-Friedman Inc. May 12, 1986

NACDS leaders look to the future



'Today a successful drug store needs to be tailored to the customers in each individual market.'
—Robert Bolger
president,
NACDS

'NACDS stays ever alert to legislation and regulation, and we will respond as required . . .'
—Alex Grass
chairman,
NACDS

ALEXANDRIA, Va. — Faced with rising real estate and construction costs, "overstored" conditions in some parts of the country and stiffening front-end competition from other retail segments, the nation's "traditional" drug chains are at a crossroads, according to Robert Bolger, National Association of Chain Drug Stores president.

In an exclusive interview

See **Bolger,** *page 146*

SHIREMANSTOWN, Pa. — Alex Grass, the new chairman of the National Association of Chain Drug Stores, said NACDS has two top priorities for the coming year: major reform of Medicaid reimbursement regulations and passage of legislation to control illegal drug diversion.

Besides re-emphasizing these issues, Grass, the 59-year-old chairman and ceo of

See **Grass,** *page 144*

Rite Aid video push puts brake on Rx/POS systems

25% of capital budget to help rentals go chainwide

By Al Heller

SHIREMANSTOWN, Pa. — Rite Aid will direct $20 million-$25 million of its record $90 million capital expenditures budget this year toward equipping an additional 500 stores with video rental departments.

This stress on video will contribute to a temporary slowdown in Rite Aid's schedule to install scanning and pharmacy computers throughout its 1,400 stores in 20 states. That program has so far placed scanning in 243 stores and pharmacy computer systems in 477 stores, executive vp Martin Grass told *Drug Store News.*

He expects to equip 150 more stores with scanning and 100 with pharmacy computers by the end of the fiscal year, next March 31. Installations should pick up next year for two reasons, he added:

- By that time, video will be in 1,000-1,100 stores, with plans to be chainwide by late next year.
- Rite Aid will develop more software to speed the rate of

See **Rite Aid,** *page 144*

Rite Aid capital expenditures

	FY '86	*FY '87**
Video rental departments	600	500
New store growth	117	85
Pharmacy computers	357	100
Scanning	243	150
Total spending	$85 million	$90 million

*Projected
Fiscal year ends March

Source: Rite Aid Corp.

Rite Aid expects to operate 1,509 stores by the end of the current fiscal year: Nearly 1,100 will have video rental departments; 577 will have pharmacy computers, including 120 installed during fiscal 1985; 393 will be equipped with scanning.

Key move in top management restructuring

Eisenberg named Peoples' coo

ALEXANDRIA, ~~Va.~~ — David Eisenberg, 49, has been named executive vp and coo at Peoples Drug Stores, as the key move in a top management restructure of the 832-store chain.

Eisenberg likened his role as the first coo ever at Peoples to the working relationship at Walgreens between ceo Charles "Corky" Walgreen III and coo Fred Canning.

"We're going to be a $2 billion company. Bud [chairman Sheldon Fantle] doesn't want to do it alone anymore. He's setting up a structure that'll carry us into the next century," Eisenberg said.

Peoples' growth has enabled it to close in on Fantle's 3-2-1 plan: a 3% net-to-sales ratio, $2 billion sales and 1,000 stores.

The drug chain's parent, Imasco, has assured management that its $1.7 billion takeover of financial services firm Genstar won't affect the level of corporate resources available to retail drug operations.

David Eisenberg

While downplaying his role "as a buffer between Bud and the company," Eisenberg said his immediate goals would be to:

- Complete chainwide instal-

See **Peoples,** *page 144*

NWDA president William Ford dies

William L. Ford

ALEXANDRIA, Va. — William L. Ford, National Wholesale Druggists' Association president, died earlier this month after collapsing during a walk through his suburban Washington, D.C., neighborhood with his wife, Betty.

Ford "could not be saved despite a quick response from the rescue squad," an NWDA spokesman said.

Ford's death occurred just eight months before his scheduled retirement from NWDA, an organization he headed for nearly two decades.

At memorial services in Washington, Ford was eulogized as a "strong person" with a "dry and delicious wit" who was always "sensitive to others' needs."

C. Joseph Stetler, former Pharmaceutical Manufacturers Association president, said Ford was "universally regarded as a strong leader, a

See **Ford,** *page 144*

Revco calls revived charges 'scurrilous'

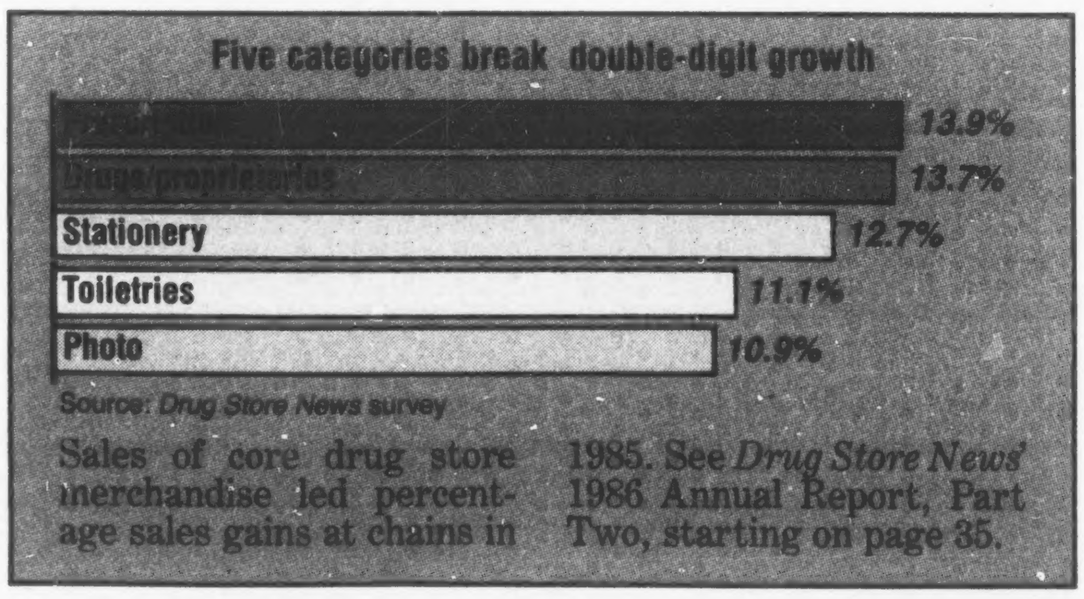
TWINSBURG, Ohio — Revco said a lawsuit by the former owners of Odd Lot Trading Co. makes charges that are "scurrilous and virtually old hat."

The suit by Bernard Marden and Isaac Perlmutter alleges that Revco officers engaged in schemes to defraud stockholders and waste assets.

The allegations resurrect charges, including a claim of improper purchasing activities, that have already been rebutted by a special committee set up last year to investigate similar claims by the two men, said

See **Revco,** *page 146*

Five categories break double-digit growth



Source: *Drug Store News* survey

Sales of core drug store merchandise led percentage sales gains at chains in 1985. See *Drug Store News'* 1986 Annual Report, Part Two, starting on page 35.

Rite Aid, Gray, 7-Eleven pull men's mags

Join Peoples, Dart, Eckerd in bow to consumer outcry

NEW YORK — Rite Aid, Gray Drug Fair and 7-Eleven are the latest major chains to withdraw men's magazines from their shelves, joining Peoples, Dart and Eckerd, who made similar moves.

Three of the top 10 drug chains now no longer sell such large-circulation titles as *Playboy* and *Penthouse*, which together are estimated to account for 5% of single-copy newsstand sales of magazines distributed by wholesalers.

Dick Conway, vp-national sales at ARA Services, the nation's largest magazine distributor, who provided the estimate, also noted a gradual retailer pullback of sexually oriented publications over the past few years. Rite Aid, for example, reduced titles in 1984, and 7-Eleven was selling only *Playboy*, *Penthouse* and *Forum* when it decided to abandon men's magazines entirely this spring.

Penthouse publisher Bob Guccione alleged at a recent press conference that interference by the Attorney General's Commission on Pornography led to the recent rash of retailer decisions to pull back from selling *Playboy* and *Penthouse*, "which are First Amendment-protected."

Retailers contacted by *Drug Store News* said they didn't consider the magazines to be pornographic. They cited changing consumer tastes and sales downtrends for their pullbacks.

They also denied that any government pressure played a part in their decisions. Some admitted receiving a letter from the commission that asked for a response to testimony alleging their involvement "in the sale or distribution of pornography."

The testimony cited Peoples, Dart, Rite Aid, Revco, Thrifty and K mart.

Harvard Law professor Alan Dershowitz, a Constitutional rights expert, said these retailers "lost their freedom of choice."

Justice Department sources said, however, "We gave them a chance to respond because we didn't want retailers to get a black eye."

Rite Aid executive vp Martin Grass said, "We didn't feel the government was impinging on our freedom of choice. We heard enough concern by enough customers. We wouldn't sell Ivory soap if enough customers said not to."

Grass noted men's magazine sales had trended downward "in the high single digits" the past few months, as overall magazine sales climbed "in the high single digits."

Dart Drug chairman Stephen Hansbrough, who followed Peoples' lead in the Greater Washington, D.C., market to drop men's magazines this year, said, "Individual letters from patrons were the most compelling reason for our decision. The magazines conflicted with our image. Group letter campaigns from churches and congregations accounted for about 25% of the letters we got on this issue."

Similarly, David Eisenberg, Peoples executive vp and coo, said his chain made the final drop Feb. 20 because they perceived "a fabric change in society toward more morality. We took shopper surveys."

He detailed how Peoples dropped *Hustler* and hardercore titles a year ago and kept *Playboy*, *Penthouse*, *Forum* and seven other men's magazines covered by binders behind counters since then.

"I don't know that we'll be able to replace those sales," said Eisenberg, who estimated the high-priced publications accounted for 15%-18% of the chain's total magazine business.

NEWS IN BRIEF

Bi-Mart plans expansion

EUGENE, Ore. — Bi-Mart, part of the Trump Group's Northern Pacific Corp., will open three stores in 1986 (all in Oregon) and five in 1987 (three in Washington, two in Oregon). Currently, Bi-Mart operates 28 stores in Oregon and five in Washington.

Bi-Mart is a discount drug membership operation that leans heavily to drugs and housewares. It differs from most drug chains in that it pushes higher ticket housewares (such as microwave ovens and vacuum cleaners) to $300-$400. A lifetime membership costs a customer $2.

Chain pharmacist tapped for ACPE

WASHINGTON — Leonard J. DeMino, vp of professional services, Peoples Drug Stores, has become the first pharmacist from a chain drug company to be selected to serve on the American Council of Pharmaceutical Education (ACPE).

DeMino was nominated for the four-year term by the National Association of Chain Drug Stores (NACDS).

DeMino, a 30-year veteran of Peoples Drug Stores, was also the first chain drug store industry member to be appointed to the Maryland State Board of Pharmacy, a position he has held for the past 10 years.

ACPE, formed in 1932, establishes standards for pharmaceutical education.

Drug wholesaler quits Manhattan

ELMSFORD, N.Y. — Commons Bros. Inc., the last major drug wholesaler in Manhattan, completed the consolidation of its business in a new 75,000-sq.-ft. distribution center located in this town some 30 miles north of the Big Apple.

Commons, which has served the New York metro market for 88 years, relocated both its Manhattan operation and County Drug Division, Bronx, N.Y., to the new location.

The move was made to achieve operational efficiencies not possible in the outmoded five-story Manhattan warehouse. Commons does an estimated $80 million a year in business.

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Drug Store News (ISSN 0191-7587), is published biweekly—every other Monday, monthly in December plus extra Pharmacist's Reference issue in April, as well as an extra Annual Pharmacists Guide to OTC Patient Counseling in October, by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscription rates: Infield subscribers, retailers and wholesalers, one year $19.50; two years $35. Out-of-field subscribers, manufacturers, schools, libraries and all others, one year $39. Single copy rate $2. Foreign subscriptions: Airmail only $125 per year.

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Vol. 8, No. 11 May 12, 1986

Bergen to buy Southwestern, beefing up Texas distribution

ORANGE, Calif. — Bergen Brunswig Corp. will strengthen its Texas drug distribution business considerably with the acquisition of Southwestern Drug Corp., announced late last month.

In buying all of Southwestern's assets for an undisclosed sum, the nation's second largest wholesaler will gain some 2,000 accounts, $150 million in sales and distribution centers in Dallas, Houston and San Antonio.

Customers of the full-line, full-service Texas business should ultimately benefit from lower prices when Bergen Brunswig passes on savings it gains from distribution efficiencies on large volume sales, BBC officers said. "The net effect to the retailer should be positive," said Jack Fay, vp-corporate affairs.

The national wholesaler will pick up an undetermined number of new customers and a larger share of business from customers it jointly supplies with Southwestern. The buy will add momentum to recent strengthening of its southern operations, which has also included expansion in Baton Rouge, La.

Southwestern Drug's territory includes Texas, southern Oklahoma, western Louisiana and western New Mexico. Bergen Brunswig—with drug company sales of $2 billion in fiscal 1986—operates in 39 states.

Bergen spokesmen said that Southwestern's operations and management will proceed intact as corporate assimilation unfolds.

Sources in both firms said they expect Southwestern's programs, including its private-label line and Super Star advertising and promotion program for retailers, to continue. Planning has continued on its June "Profit Market" product show in San Antonio, a fact that Southwestern sources cited to illustrate that it has been business as usual. "Bergen Brunswig's a fine company, and they made a good impression on our people here," said one Southwestern officer.

"We welcome this opportunity to extend our service in Texas. Southwestern Drug is a well-managed firm with a long history of accomplishment," said BBC chairman and ceo Emil P. Martini Jr.

Bogus drug labels spur House action

WASHINGTON — An alleged conspiracy to divert more than a half million dollars' worth of counterfeit-labeled Lederle drugs into the U.S. market has triggered increased Congressional pressure for new federal curbs on drug diverters.

The alleged scam, which involved the fraudulent purchase and diversion of Lederle Pipracil (piperacillin) destined for Central America, was disclosed by House Investigations Subcommittee chairman John Dingell (D-Mich.) at a meeting with leaders of the National Association of Retail Druggists late last month.

Citing the piperacillin incident as the latest in a rash of recent pharmaceutical diversion episodes, Dingell told NARD that his panel will soon advance a series of legislative proposals to combat such schemes.

Privately, however, staffers on Dingell's panel who have been investigating incidents of drug diversion and counterfeiting for more than two years told *Drug Store News* that the subcommittee is also concerned about the Food and Drug Administration's apparent inability to deal promptly with incidents such as that of piperacillin.

Although Lederle officials discovered the scheme late last year after more than 50,000 vials of the antibiotic/penicillin product had been diverted from Honduras by a drug wholesaler in Florida, FDA did not announce a recall of the fraudulently labeled products until last month.

According to a Lederle spokesman, the company caught wind of the scheme in late 1985 and discharged two of its own Central American pharmaceutical sales execs for participating in the alleged diversion conspiracy.

Court papers filed by the manufacturer in an effort to recover treble damages from the accused conspirators charged that the diversion plot was hatched by execs at Military Exchange BO Inc.—a Miami Beach-based wholesaler.

According to Lederle attorneys, Military Exchange president Julio Klepach reached an agreement with the manufacturer's Central American sales manager to fraudulently purchase quantities of piperacillin under the name of a Honduran company at the firm's "reduced export price, which was approximately 50% less than the price that United States wholesale companies purchase such merchandise."

Lederle said the conspirators printed "counterfeit labels and direction inserts in English, which contained false information regarding lot and control numbers."

Rite Aid's Rx sales boost earnings

SHIREMANSTOWN, Pa. — Recovering from a down third period, Rite Aid posted an earnings gain in the fourth quarter ended March 1, spurred by growing prescription and private-label sales.

Fourth-quarter net income increased 5% to $24.9 million, or 61¢ a share, from $23.8 million, or 58¢ a share, in the year-earlier period. Sales increased to $428.9 million from $375.4 million.

Net income grew in the fourth quarter in the face of a slide in equity earnings from Super Drug PLC, the British health & beauty aids company in which Rite Aid has a 28.2% interest, and from Super Rite Foods, the grocery company owned 46.8% by Rite Aid.

Super Drug contributed equity earnings of $765,000 for the quarter, compared with $775,000 in last year's comparable period.

Super Rite Foods continued to provide depressed profits as a result of problems with computer software at a new distribution center that had crimped third-quarter results. Fourth-quarter equity earnings from the investment were down 61.6% to $251,000.

For the year ended March 1, total corporate revenues climbed to a record $1.56 billion, 15% above 1985's $1.36 billion. Net earnings, reflecting charges incurred from the sale of the Circus World toy chain and the closing of the Heaven contemporary variety store units, declined to $62.5 million, or $1.52 a share, from $69.9 million, or $1.69 a share, in the previous year.

The chain's ADAP auto parts stores provided a break-even performance, with sales of $49.9 million. Encore book stores posted sales of $17.9 million.

Super Drug's equity earnings for the full year were up 2%, to $2.5 million, while Super Rite Foods lagged behind 1985, with an equity contribution of $1.4 million, compared with $2.2 million.

Chairman Alex Grass recently noted that strong same-store sales, including a January increase of 10.7%, were fueled by growing prescription revenues, strong video rentals, and a solidly performing promotional program. The program features deep discount pricing on about 100 H&BA items and household products.

Prescription and private-label sales as a per cent of total sales continued to increase, growing from 40% five years ago to 49% this year.

Prescription sales continued to strengthen, accounting for 35.6% of drug store revenue, compared with 33.4% in the previous 12 months.

Grass said that same-store sales growth was impressive.

In January, Rite Aid hiked its quarterly dividend 16%, to 58¢ per share on an annualized basis, the 15th increase in the last 14 years.

Gray income: No improvement

CLEVELAND — Sherwin-Williams reported that its Gray Drug Fair division showed no improvement in net income for the first quarter ended March 31.

The company cited "lower gross margins and weak general merchandise sales."

John G. Breen, chairman, president and ceo, said he expected that "continued emphasis in the drug stores segment on inventory management, loss prevention and operating efficiencies will result in improved segment profit performance for the full year."

		STOCK PRICE							TREND TO MARKET				EARNINGS/SHARE					P/E	DIVIDENDS			FINANCIAL POSITION				
		From 04/04/86 - 04/21/86							Price Trend (% per day)		Volume Trend (% per day)			Latest 12 Months vs Preceding 12 Months Change					Indicated Dvd. rate			Last Fiscal Year			Last Fiscal Year (Per Share)	
					Change		52-Week																			
Name	Symbol	High	Low	Close	Amt	Pct	High	Low	Last 30 Days	Last 5 Days	Last 30 Days	Last 5 Days	Last Fiscal Year	Amt.	Pct	5-Year Annual Growth Rate	Profit Margin	Latest P/E Ratio	Amt.	Yield	Last X-Dvd. Date	Revenue	Earnings	Current Ratio	Long Term Debt	Common Stock Equity
-	-	$	$	$	$	%	$	$	%	%	%	%	$	$	%	%	%	-	$	%	-	$ Mil	$ Mil	-	$	$
Chain Store transactions																										
Am Stores	ASC	62.00	57.63	61.50	3.00	5.13	68.25	48.63	-.12	-.01	-3.96	9.82	4.11	-1.60 F	-28.0	30.0	1.1	15.0	.84	1.4	03-24-86	13889.5	154.5	1.2	37.93	21.40
Begley Co	BGLY	22.00	21.50	21.50	-.25	-1.15	23.50	15.50	-.14	-.65	-5.31	31.58	1.26	.50 N	42.7	10.0	1.1	12.9	.72	3.3	04-15-86	66.1	.7	1.7	13.77	18.84
Big B	BIGB	15.13	13.88	15.13	.25	1.68	19.50	12.63	.17	1.27	-3.22	23.80	.61	-.07 F	-10.3	21.0	2.3	24.8	.00	.0	09-21-83	175.4	4.0	2.3	1.20	4.58
Drug Sys	DRGS	5.50	4.75	5.00	-.13	-2.44	6.13	3.75	.07	1.10	.69	22.57	.35	-.97 N	-100.0	NC	1.2	NE	.50	10.0	01-06-86	104.7	1.3	3.2	1.13	6.18
Eckerd, Jack	ECK	32.88	32.00	32.75	.63	1.95	32.88	20.00	.01	-.15	2.40	-3.88	-.22	-3.13 S	-100.0	NC	-.3	NE	1.04	3.2	03-03-86	2508.5	-8.3	1.6	2.64	14.49
Fay's Drug	FAY	10.75	9.75	10.25	.13	1.23	11.75	8.00	-.39	-.28	-3.09	4.50	.20	-.42 F	-67.7	21.0	.6	51.3	.20	2.0	03-21-86	445.1	2.8	1.8	1.65	4.28
Genovese Drug	GDX	13.75	12.50	13.50	.13	.93	14.38	9.13	-.33	1.27	-2.51	-9.35	.73	-.30 F	-29.1	39.0	1.2	18.5	.20	1.5	04-08-85	233.2	2.9	1.7	2.06	5.73
Longs Drg Strs	LDG	35.38	30.50	34.75	4.25	13.93	35.38	24.75	.63	-.06	-2.25	-3.38	1.74	-.14 F	-7.4	8.0	2.5	20.0	.72	2.1	02-26-86	1480.8	37.7	2.1	.00	12.23
Medicare Glaser	MGCO	4.50	3.75	4.25	-.25	-5.56	5.25	3.75	.22	-1.76	2.55	2.53	.05	-.49 N	-100.0	NC	.2	NE	.00	.0	00-00-00	81.7	.2	2.2	3.58	3.52
Medicine Shoppe	MSII	24.88	24.38	24.88	.38	1.53	26.00	21.00	-.20	-.29	-1.98	-34.76	.84	.16 Q	22.5	49.0	22.4	28.6	.00	.0	00-00-00	13.4	3.0	9.2	.00	5.08
Perry Drug	PDS	18.25	15.25	18.25	2.75	17.74	18.75	11.19	.02	1.62	-2.47	35.37	.98	.18 Q	22.2	16.0	1.8	18.4	.22	1.2	02-20-86	521.6	9.6	2.0	9.77	7.79
Revco Drug	RDS	37.88	33.50	37.50	3.50	10.29	37.88	23.13	.26	.17	-1.35	13.77	1.06	-1.01 N	-51.3	-6.0	1.6	39.1	.80	2.1	02-19-86	2395.6	38.9	1.7	1.22	12.48
Rite Aid Corp	RAD	32.25	27.75	31.25	2.75	9.65	32.25	21.50	-.27	1.66	-.38	-22.93	1.52	-.17 F	-10.1	8.0	4.0	20.6	.58	1.9	04-14-86	1564.1	62.5	1.9	2.02	8.58
Thrifty Cp	TFD	28.63	26.75	27.50	-1.25	-4.35	29.88	18.13	-.08	-.28	-3.58	.52	1.60	.13 S	8.6	16.0	2.3	16.7	.64	2.3	02-04-86	1404.9	31.9	1.7	5.86	6.85
Walgreen Co	WAG	35.50	30.00	35.25	2.88	8.88	35.50	22.50	.03	.01	-2.30	-2.01	1.53	.14 S	9.4	19.0	3.0	21.6	.50	1.4	05-15-86	3161.9	94.2	1.8	1.17	7.83
Wholesaler's transactions																										
Bergen Bruns	BBCA	34.13	32.00	32.13	-2.00	-5.86	37.25	24.41	-.53	-1.42	-.46	21.18	1.82	.06 S	3.6	13.0	1.0	18.5	.32	1.0	01-28-86	2434.9	24.2	1.7	11.12	12.07
Bindley Wstn	BIND	11.13	10.75	10.75	-.38	-3.37	15.00	7.75	-.45	-.87	-7.45	-11.04	.79	.06 F	8.2	23.0	.8	13.6	.00	.0	05-01-85	626.9	5.2	1.4	.08	5.46
Cardinal Distrb	CDIC	24.75	24.25	24.50	.00	.00	25.25	14.22	.21	-.44	1.33	36.03	.92	.42 N	46.7	NC	1.2	18.6	.08	.3	03-25-86	320.0	3.7	1.7	.85	8.04
Durr Fillauer	DUFM	14.50	13.88	13.88	-.63	-4.31	15.25	9.25	-.26	-1.51	-1.21	5.93	.78	.04 F	5.4	13.0	1.4	17.8	.15	1.1	02-24-86	427.1	6.1	2.7	5.30	6.69
Ketchum	KCH	20.38	19.00	20.25	.88	4.52	23.25	14.19	-.44	-.65	.31	14.58	.56	-.01 N	-2.2	NC	.2	46.0	.00	.0	09-23-85	273.7	.6	1.4	7.87	7.52
McKesson Cp	MCK	58.13	54.50	58.00	1.25	2.20	61.25	42.00	-.02	.28	-1.96	-49.14	3.60	.38 N	10.9	-1.0	1.3	14.9	2.40	4.1	02-25-86	4887.1	65.0	1.5	12.99	30.40
Moore Med	MMD	22.50	19.63	20.25	-2.13	-9.50	24.25	12.31	-.45	-2.79	-2.04	48.79	1.45	.43 F	42.2	17.0	2.5	14.0	.00	.0	05-23-85	147.9	3.7	3.3	2.45	5.25
Owens & Minor	OBOD	18.75	17.63	17.88	-1.25	-6.54	20.25	12.19	-.42	-.22	-1.48	10.58	1.14	.19 F	20.0	18.0	1.2	15.7	.28	1.6	12-10-85	367.3	4.4	2.6	7.15	9.34
Manufacturer's transactions																										
Abbott Labs	ABT	91.88	79.50	90.63	7.88	9.52	91.88	49.50	.46	.44	-.65	-1.29	3.88	.61 Q	17.6	17.0	13.8	22.3	1.68	1.9	04-09-86	3360.3	465.3	2.1	3.70	15.64
Am Home Prod	AHP	88.38	74.13	88.25	14.25	19.26	88.38	54.75	.31	.03	2.35	-2.81	4.70	.31 F	7.1	11.0	15.3	18.8	3.10	3.5	02-07-86	4684.7	717.1	3.4	.00	15.19
Baxter Travenol	BAX	19.75	18.25	19.50	1.25	6.85	19.75	12.38	-.02	-.06	-2.10	-7.36	.85	.64 F	304.8	-14.0	5.8	22.9	.40	2.1	03-11-86	2355.0	137.0	1.9	12.21	9.86
Block Drugs Co	BLOCA	23.25	22.25	22.63	-.13	-.55	26.25	14.81	-.56	-.53	-3.30	-36.41	1.70	.22 N	13.6	12.0	10.5	12.3	.50	2.2	02-25-86	247.8	25.9	2.4	1.59	10.91
Bolar Pharm	BLR	24.88	19.50	24.63	3.88	18.67	24.88	12.00	.19	2.89	2.16	31.12	.71	.10 F	16.4	22.0	17.7	34.7	.05	.2	02-24-86	38.4	6.8	7.5	.00	3.70
Bristol-Myers	BMY	80.75	70.00	80.75	10.13	14.34	80.75	53.63	.08	1.13	-3.03	-1.16	3.86	.41 F	11.9	14.0	12.0	20.9	2.20	2.7	03-31-86	4444.0	531.4	2.5	.83	17.75
Carter-Wallace	CAR	61.75	58.13	61.75	2.13	3.56	62.00	32.00	-.17	-.07	-1.75	27.79	2.66	.86 N	32.8	21.0	5.9	17.7	.60	1.0	04-14-86	348.8	20.7	2.2	1.53	23.37
Forest Labs	FRX	38.75	35.13	38.50	2.25	6.21	39.38	17.63	.34	-.65	-3.78	-5.53	.73	.40 N	70.2	16.0	17.4	39.7	.00	.0	01-14-83	24.1	4.2	4.5	.22	5.90
ICN Pharm	ICN	13.13	11.38	12.75	-.25	-1.92	15.63	8.50	-.55	.37	5.07	1.11	-2.10	-2.11 Q	-100.0	NC	-29.1	NE	.00	.0	00-00-00	62.8	-18.3	2.7	5.08	3.00
Key Pharm	KPH	18.88	16.13	18.63	1.75	10.37	18.88	7.13	.25	1.17	-6.15	11.79	-.02	-.63 F	-100.0	NC	-.5	NE	.00	.0	09-09-85	152.1	-.8	3.4	2.52	1.60
Lilly Eli Co	LLY	74.50	68.38	73.75	4.13	5.92	76.25	37.50	.55	.29	-1.24	-8.88	3.69	.31 F	9.2	11.0	15.8	20.0	1.80	2.4	02-07-86	3270.6	517.6	1.9	1.71	17.12
Lee Pharm	LPH	18.13	15.88	17.50	1.63	10.24	18.75	4.63	-.11	-.21	-4.32	-19.16	.40	.17 Q	70.8	NC	6.6	42.7	.00	.0	00-00-00	12.2	.8	3.1	.00	2.49
Leiner P Nutri	PLIN	15.00	14.25	14.25	-.38	-2.56	15.00	8.25	.36	-.99	-.70	-37.14	.78	-.10 N	-12.5	NC	4.1	20.4	.00	.0	00-00-00	53.6	2.2	2.5	.00	4.90
Marion Labs	MKC	67.25	56.50	66.50	6.75	11.30	67.25	31.25	-.01	.98	-.08	8.63	.94	.42 S	55.3	38.0	12.2	56.4	.36	.5	03-14-86	295.7	36.2	2.1	.00	4.17
Merck & Co	MRK	183.00	161.00	180.50	16.00	9.73	183.00	98.25	.32	.29	1.58	8.75	7.58	1.15 Q	16.8	7.0	15.2	22.6	3.60	2.0	02-27-86	3547.5	539.9	1.9	2.43	37.54
Morton Thiokol	MTI	37.13	33.25	35.63	.75	2.15	40.50	29.63	-.23	-.39	-.94	-9.93	2.50	-2.66 N	-67.9	13.0	6.7	28.3	.70	2.0	02-14-86	1832.3	122.8	1.8	3.25	15.00
Newport Pharm	NWPH	8.50	6.25	7.38	.38	5.36	14.50	6.25	-.55	-.11	3.94	-27.50	.05	-.08 N	-100.0	NC	6.7	NE	.80	10.8	05-23-85	9.0	.6	3.2	.21	.96
Par Pharm	PARP	16.50	14.75	14.75	-1.25	-7.81	23.25	14.25	-.35	-2.69	.04	26.21	.47	.00 Q	.0	76.0	14.1	30.7	.00	.0	00-00-00	21.3	3.0	2.2	.92	2.33
Pfizer Inc	PFE	64.25	55.38	63.88	7.63	13.56	64.25	43.50	.19	.90	-1.63	.87	3.44	.36 F	11.7	16.0	14.4	18.6	1.64	2.6	01-27-86	4024.5	579.7	2.2	1.97	17.87
Reid Prov Labs	REID	10.88	10.50	10.50	-.50	-4.55	11.00	4.00	-.18	-.29	-9.37	69.80	.13	.06 S	46.2	28.0	6.0	55.3	.04	.4	12-06-85	16.6	1.0	3.1	.02	.92
Robins, AH	QRAH	13.75	12.88	13.38	.38	2.88	20.38	5.50	-.50	-1.01	3.54	81.13	2.53	20.97 F	NE	NC	8.7	5.3	.00	.0	11-19-84	706.1	61.4	1.7	.47	-5.23
Rorer Group	ROR	39.63	36.75	38.75	-.13	-.32	47.00	28.63	-.01	-.03	-2.90	17.50	1.72	-.36 F	-17.3	2.0	10.9	22.5	1.12	2.9	02-04-86	338.1	36.8	1.5	1.72	12.29
Scherer RP Co	SCHC	14.25	12.38	13.13	.63	5.00	16.50	10.13	.44	-1.10	-1.60	3.00	-.43	-.96 N	NE	NC	-2.0	NE	.32	2.4	03-07-86	167.4	-3.4	1.7	4.07	9.72
Scher Plough	SGP	72.88	64.50	72.75	6.38	9.60	72.88	42.25	.24	1.16	.60	16.70	3.77	.27 F	7.7	-2.0	10.0	19.3	1.80	2.5	02-03-86	1927.1	192.6	1.6	4.04	28.59
Squibb Corp	SQB	104.25	91.75	104.25	11.25	12.10	104.25	55.50	.11	.73	.78	17.37	4.20	.52 F	14.1	25.0	11.1	24.8	1.76	1.7	02-14-86	2041.7	226.6	2.3	3.74	24.87
Sterling Drug	STY	47.00	42.50	46.63	3.75	8.75	47.00	29.50	.00	1.09	.33	21.23	1.83	-.54 F	-22.8	-1.0	6.3	25.5	1.32	2.8	05-02-86	1753.7	109.7	2.2	1.47	15.75
Syntex Corp	SYN	58.88	50.63	58.25	6.75	13.11	58.88	27.69	-.11	.07	1.77	-18.32	2.33	.79 S	39.3	14.0	15.8	20.8	1.20	2.1	12-16-85	948.5	150.0	2.1	2.68	9.40
Thompson Med	TM	17.25	15.13	17.25	1.75	11.29	17.25	11.75	.14	1.85	4.13	38.19	1.18	-.75 Q	-39.5	8.0	8.1	15.0	.40	2.3	03-24-86	136.8	11.1	5.5	.00	7.43
Upjohn Co	UPJ	167.63	153.00	167.50	9.88	6.26	168.75	83.00	.07	.33	.51	-29.42	6.58	1.70 Q	32.6	3.0	10.1	24.2	3.04	1.8	04-01-86	2017.2	203.0	2.1	12.17	41.76
Warner-Lambrt	WLA	57.38	50.75	56.75	4.25	8.10	57.88	33.75	.06	.12	1.68	-21.65	4.05	-6.86 F	-100.0	NC	-9.9	NE	1.56	2.7	02-03-86	3200.1	-315.6	1.4	4.47	11.12

All data are based on sources believed to be reliable, but its accuracy is not guaranteed. Every effort will be made to correct errors, when discovered, in future issues.

Footnotes:

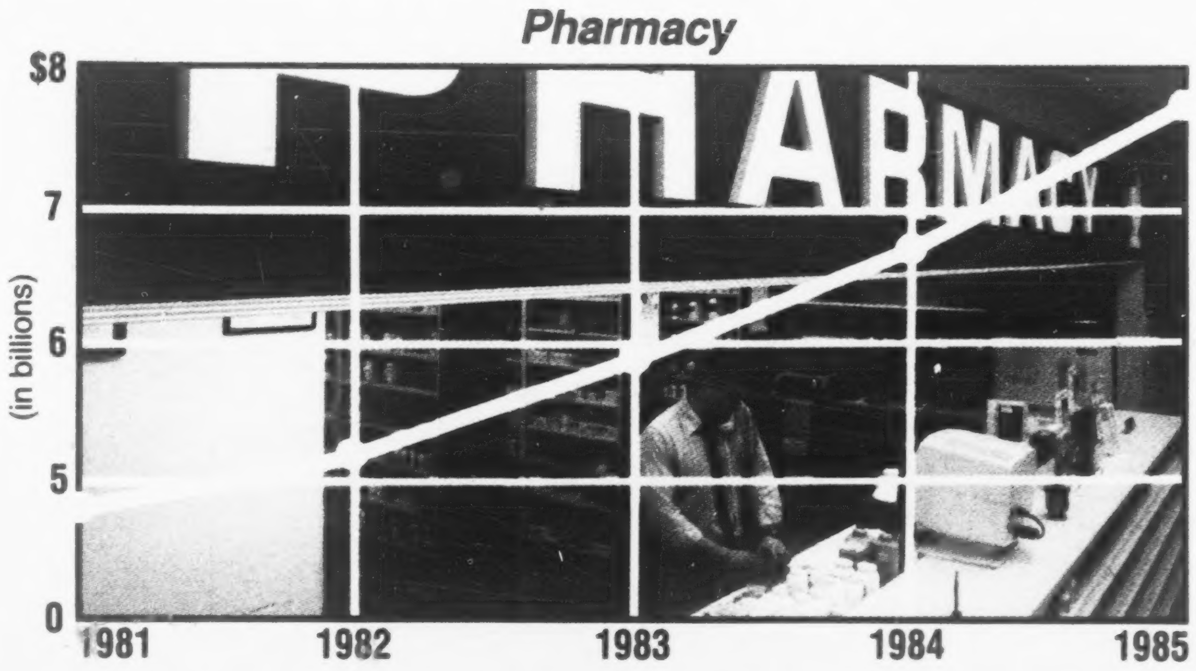
NA - Not Applicable
NC - Not Calculable
NE - Negative Earnings
NM - No Meaningful Figure
Q - First Quarter
S - First 6 Months
N - First 9 Months
F - Fiscal Year

Data and Table Prepared by Media General Financial Services, Inc., Richmond, Virginia 23219

DRUG STORE NEWS®

THE 1986 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PART TWO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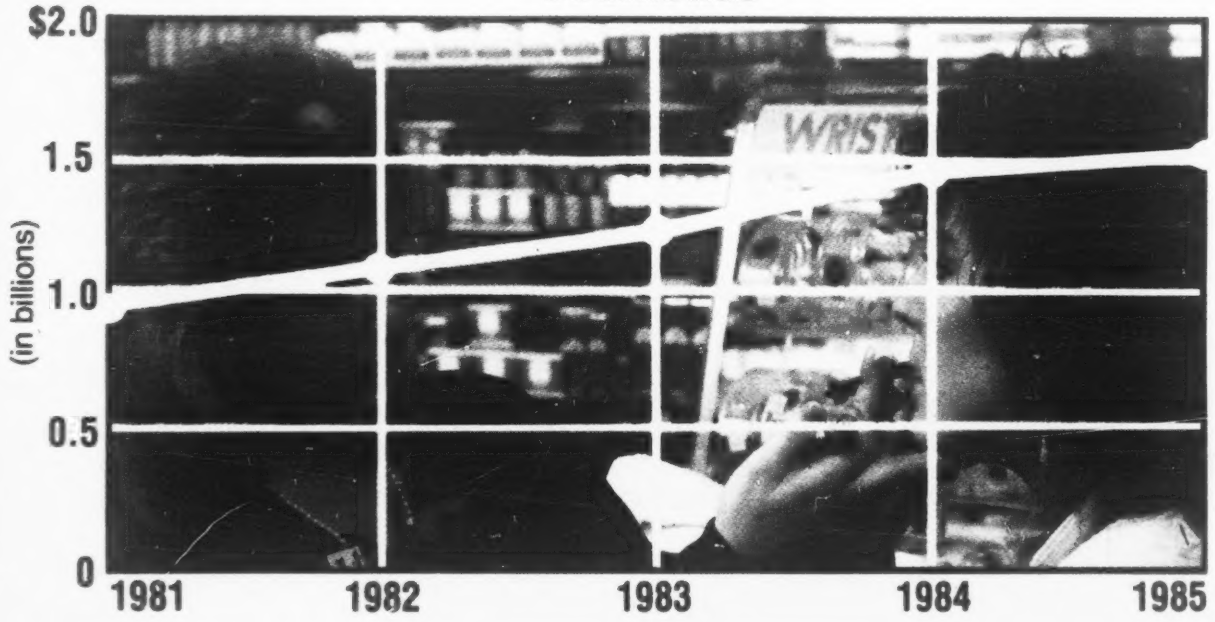
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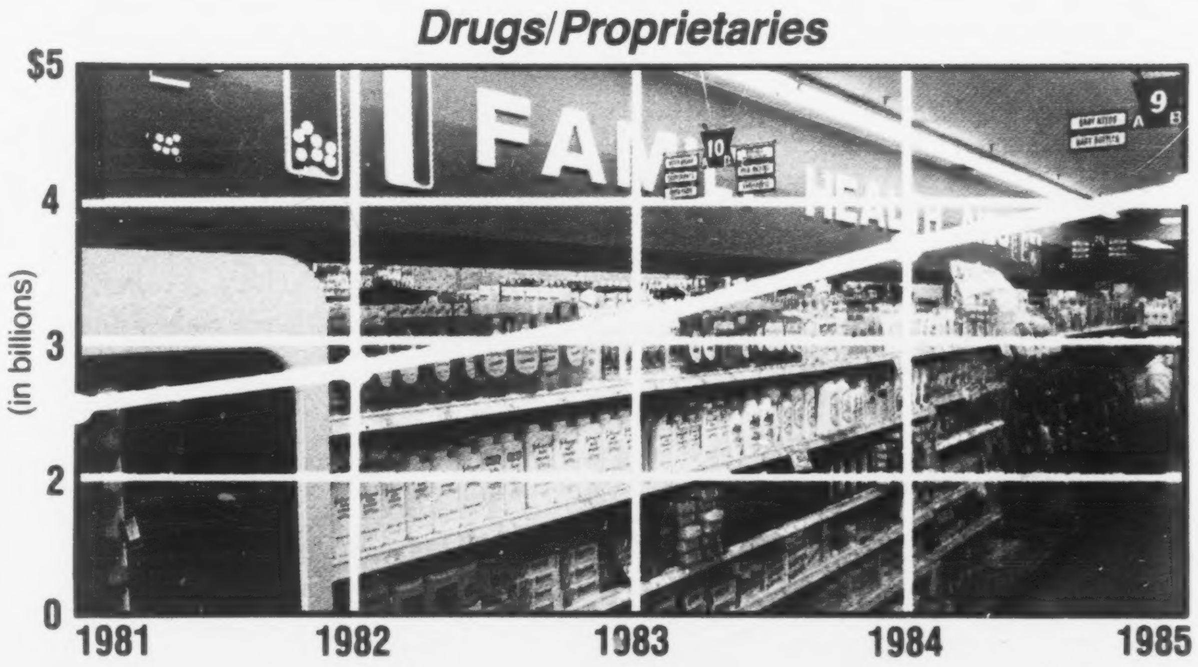
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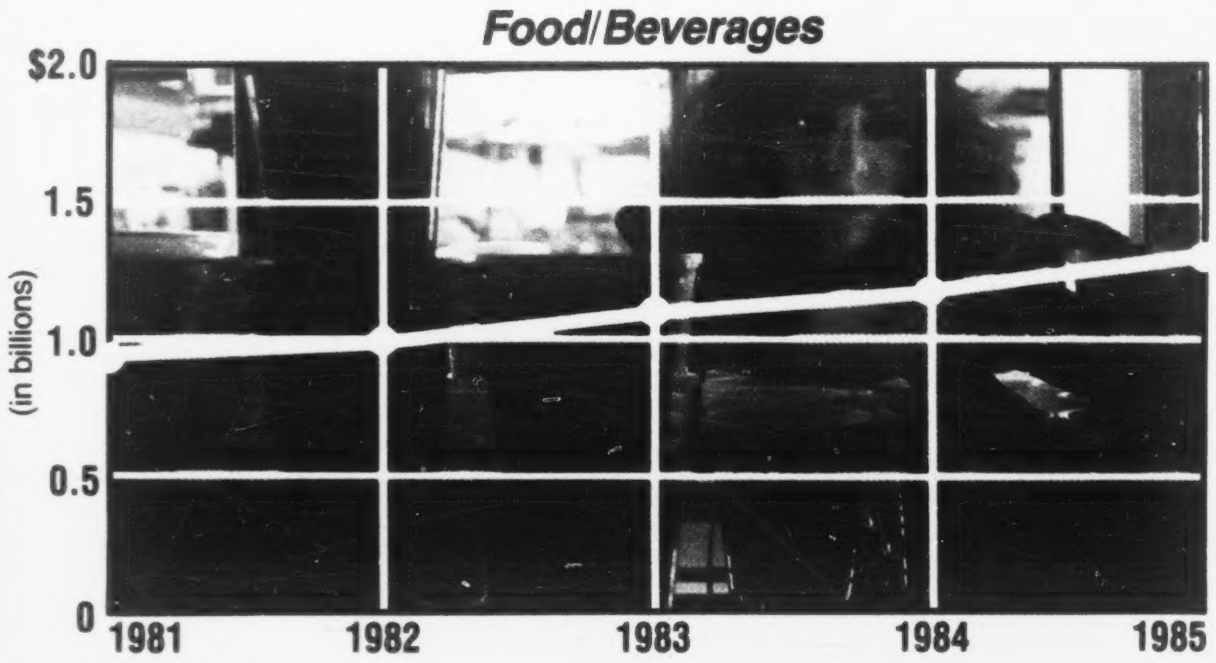
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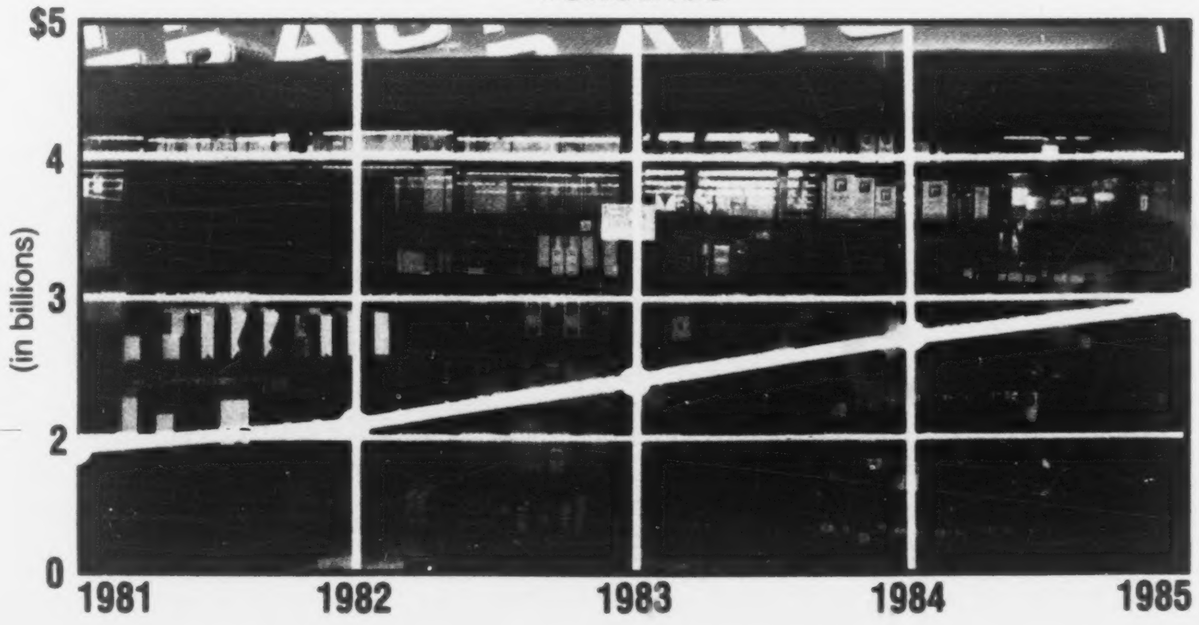
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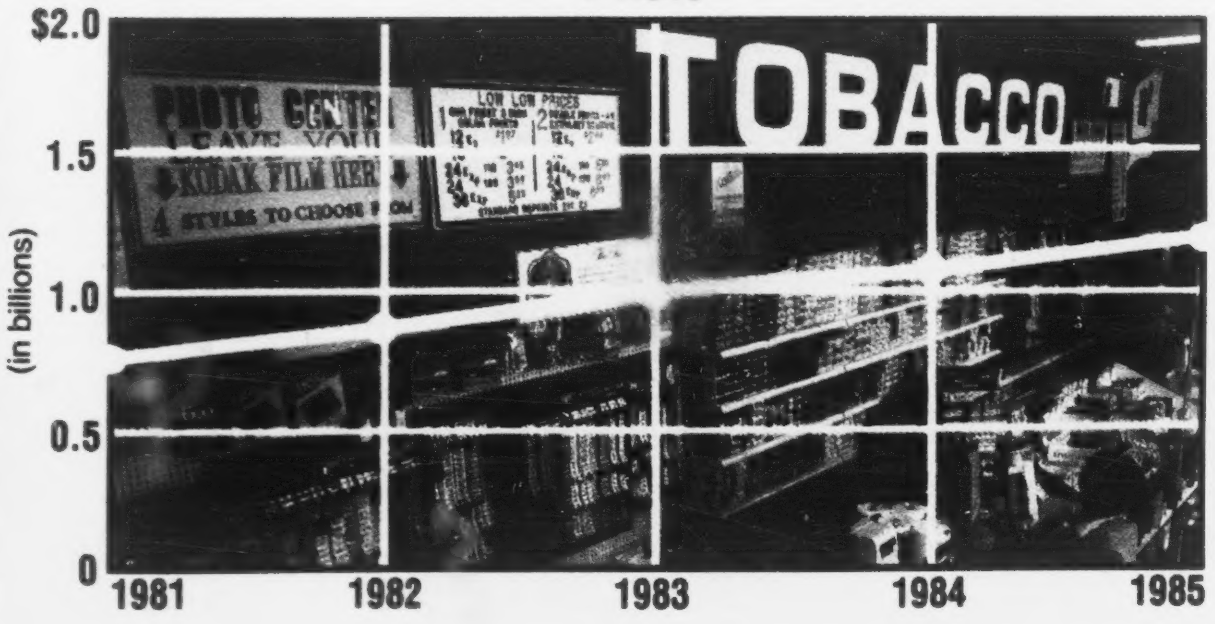
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Source: *Drug Store News* survey

PRODUCTS

Scripts, OTC lead drug chain growth in '85

Industry re-emphasizes Rx roots to keep distinctive niche

What's made consumers happy in 1985, and is continuing into 1986, hasn't exactly been a cocktail party for drug chains across America.

Reduced inflation and lower interest rates have pressured margins more than in recent memory, as drug chains try to fend off deep discounters, supermarkets, warehouse clubs and discount department stores.

Many chains have at last recognized in the past year that price isn't the only way to compete. "We'd all go broke if that were so," said Irving Bain, executive vp-retail development at Shoppers Drug Mart.

They've also discovered that general merchandise ventures in drug stores' space-tight environments leave them with relatively slim assortments and few fashion goods, fewer opportunities to cross-merchandise, and less leverage than larger-scale outlets when it comes to buying at quantity discounts.

On top of that, general merchandise sales been soft nationwide. Consumers have bought cars, homes and vacations in the current environment, leaving more routine merchandise purchases for later.

What's a drug chain to do? Take two aspirin and call Reagan in the morning?

More than that. Drug chains have become more animated in their push of pharmacy, health & beauty aids and over-the-counter medications. That makes them distinctive in the marketplace.

Efforts include pharmacy department renovations, to include consultation windows; new, warmer, funnier and more involved-with-customer positioning in print and television ads; and continued installation of pharmacy computer systems. Thrifty, Fay's and Page have taken such new positions in their ads.

Moreover, Eckerd started to test generic drugs it sells so their quality wouldn't be questioned. Gray Drug Fair is remodeling stores to give pharmacy more visibility in a new format.

K&B and Adams are among chains continuing to install pharmacy computer systems. And those who've succeeded with such systems, like Fay's advertise how it helps their pharmacists help customers.

In addition, chains are encouraging customers to seek pharmacist advice about OTC medications. Pharmacists are also the key in-store consultant on home health care diagnostic aids.

Service appears to be the way chains aim to keep customers most comfortable buying prescriptions and related needs in drug stores.

"If drug chains lose that franchise, they lose their foothold in any kind of retailing," said Ira Shain, Associated Drug Stores president. "If drug chains don't emphasize anything else in 1986, it'll be these categories [Rx, H&BA and OTC] where they're still the dominant retailers.

"By going back to what made them important in the first place, it'll be easier to increase sales. It's incredible to see how little impact drug stores have in some other merchandise categories, where growth is harder to get," Shain added.

Shain speaks from a large chain point of view, but would probably have few detractors industrywide on this point.

Back to Rx basics

To Jeff Atkinson, vp-marketing at 600-store Medicine Shoppe International, the move back to Rx basics couldn't make better sense. "Drug stores have become more and more compartmentalized with nondrug departments. These glorified variety stores are getting kicked to death by mass merchants who buy and sell general merchandise more effectively.

"Drug stores have muddied their image by diversifying," Atkinson added.

Genovese vp-marketing Don Gross agreed: "We can't wander from our roots. We can support other items only after we're stronger where we should be strong."

Genovese in the past year has been a microcosm of chain efforts to remain profitable in the face of outside competitive pressures. It defined a promotional pricing program around high-identity H&BA sku's, added to its

Continued on page 39

Department	Total chain drug $ volume	% of increase	% of total sales	Gross margins	Avg. no. of turns
Prescriptions	$7,668,588,000	13.9%	27.2	35%-40%	6.5
Drug/proprietaries	4,086,749,000	13.7	14.5	30%-35%	5.0
Toiletries	3,047,289,000	11.1	10.8	25%-30%	5.0
Cosmetics	1,481,076,000	9.6	5.3	35%-40%	2.2
Stationery	1,352,026,000	12.7	4.8	40%-45%	4.5
Tobacco	2,127,362,000	7.5	7.5	15%-20%	15.0
Candy	972,975,000	9.1	3.5	25%-30%	5.5
Housewares	1,902,373,000	4.4	6.7	35%-45%	3.0
Toys	701,280,000	4.4	2.5	35%-40%	4.0
Photo	1,235,429,000	10.9	4.4	20%-25%	9.0
General merchandise	1,189,678,000	5.9	4.2	35%-45%	5.0
DIY	424,501,000	1.0	1.5	35%-45%	3.0
Grocery/liquor	1,280,230,000	5.9	4.5	15%-20%	12.0
Misc./promotional	724,412,000	10.2	2.6	15%-20%	NA

'If drug chains lose their [Rx] franchise, they lose their foothold in any kind of retailing.'

—**Ira Shain**
president,
Associated Drug Stores

	1976	1977	1978	1979	1980	1981	1982*	1983	1984	1985
Rx	$2,138	$2,470	$3,073	$3,476	$3,983	$4,612	$5,105	$5,927	$6,733	$7,669
OTC proprietaries	1,339	1,531	1,730	1,964	2,235	2,575	2,879	3,201	3,595	4,087
Toiletries	1,083	1,169	1,317	1,484	1,726	2,020	2,271	2,457	2,742	3,047
Cosmetics	448	515	604	708	831	976	1,107	1,205	1,352	1,481
Stationery	484	547	614	689	779	888	987	1,069	1,199	1,352
Tobacco	918	973	1,089	1,219	1,354	1,518	1,702	1,806	1,979	2,127
Candy	440	500	533	568	607	674	753	793	892	973
Housewares	619	706	806	920	1,065	1,238	1,389	1,497	1,606	1,676
Toys	322	335	370	408	464	533	598	632	672	701
Photo	398	448	511	587	680	791	891	1,001	1,114	1,235
General merchandise	516	588	673	771	893	1,035	1,146	1,227	1,337	1,416
DIY	177	191	205	237	275	319	356	396	420	425
Grocery and liquor	405	467	549	645	780	934	1,060	1,123	1,209	1,280
Misc./promotional	345	351	366	382	478	562	579	589	657	724

'Drug stores have become . . . compartmentalized with nondrug departments [and] are getting kicked to death by mass merchants who buy and sell general merchandise more effectively.'

—**Jeff Atkinson**
vp-marketing,
Medicine Shoppe

PRODUCTS

Irving Bain, Shoppers Drug Mart

David Peterson, Perry

Ruben Johnson, Crown Drugs

David Eisenberg, Peoples

Drug chains must stress Rx, OTC, H&BA

Continued from page 36

buying clout and improved in-stock positions by bringing more goods through a new distribution center, and has set plans to test front-end scanning this year to tighten inventory management.

Scanning tested

Peoples similarly sought to trim some fat from its inventory levels, even with its consolidated 500,000-sq.-ft. distribution center in Fredericksburg, Va. It established plans to test scanning in a few stores by the end of 1986, has changed its logo and will probably change in-store signage to more clearly identify merchandise displays and ease the convenience of a shopping visit. The chain will also equip half its pharmacies with terminals by the end of the year.

"When sales gains aren't built in through inflation, margins flatten or fall because everyone's trying to attract the shopper," said Peoples executive vp and coo David Eisenberg. "We look at the three legs—sales, margins and expenses—and know that for the next four to five years, we have to look to cut expenses."

Perry also will introduce scanning in its conventional stores this year, after testing systems in its A. L. Price deep discount units. Vp-corporate merchandising David Peterson conceded that "one of the risks when you diversify is you forget what business you're in in the first place. You can also spend more time and effort to develop a nontraditional department than create growth in traditional drug store lines.

"But there are opportunities, and we are going to use them when they make sense. We have to fill up the store," he added.

Even the eclectic Perry chain, which sells boats and ice fishing gear in some stores, has recently pared back 38% of specialty departments on a store-by-store basis.

But its strategy to sell marine supplies in markets that are light in specialty boat shops illustrates how drug stores might pick their shots in general merchandise.

Crown Drugs in North Carolina has also bolstered itself with "a good reputation for carrying unusual items you wouldn't normally find in a drug store," said vice president Ruben Johnson. "That image keeps people coming back to see what they'll find. We aren't scared to try anything twice."

He's also aware that drug stores must look fresh. "When customers don't see change in your stores, they think you're getting outdated," Johnson said. Crown stores will soon include permanent 16- to 20-ft. automotive sections, stocked primarily with best-selling sku's in each car care category, because there are few automotive discounters in Crown markets.

A majority of leading merchants might agree that Perry's and Crown's brand of retailing isn't for everybody. But innovativeness is a viable weapon against deep discounters and combos.

Deep discounters are vulnerable because they don't carry much general merchandise; combos can be had because drug store lines are still a secondary emphasis.

> 'Direct importing will be on a one-order-only basis this year . . . It'll be tough to develop continuity. Deliveries will be late.'
>
> —**Phil Weinstein**
> *president,*
> *Affiliated Drug Stores*

"Supermarkets also have H&BA, photo processing and greeting cards. But their assortments are less, they concentrate elsewhere, and it's incremental business for them," said Phil Weinstein, president of Affiliated Drug Stores.

Still, powerhouses like Pathmark can give Northeastern drug chains the shakes when they advertise pharmacy, video departments, cosmetics and H&BA. One-stop shopping means more at a 70,000-sq.-ft. combo than at a 12,000-sq.-ft. drug store.

Weinstein noted one front where drug stores have tried to be innovative, in direct importing, where they'll probably encounter problems this year.

"Direct importing will be on a one-order-only basis this year," said Weinstein. "Economic troubles in the Orient have caused factory closings. It'll be tough to develop continuity. Deliveries will be late, so if something does hit, drug stores won't even be able to get a reorder."

To beat deep discounters, some drug chains have decided to beat them at their own game through diversification, or restress pharmacy service and general merchandise in their traditional stores. They know by now how deadly price wars can be.

Excitement built in

Phil Wilber, founder of Drug Emporium, recently agreed with a *Drug Store News* assessment that shoppers visit his stores partly for entertainment. They never know what they'll find on his shelves because of deal buying. There's an innate excitement.

However, Medicine Shoppe's Atkinson believes deep discounters will undergo "a major washout." He said most operators "won't have the funding or patience to wait for the businesses to break even, about two to three years, compared to one year for a traditional drug store."

"Most entering the deep discount arena won't be able to pay the price to break even. The ROI isn't good enough. Some have given up after four to nine months," Atkinson added.

If pharmacy growth is the way to go, prospects seem strongest for drug stores tied into HMO/PPO (health maintenance organization/preferred provider organization) business. Drug stores who get outbidded for these contracts consider HMO's the biggest threat to their livelihood. Drug stores who win the favor of HMO's acquire a locked-in market for scripts, albeit at far lower prices, and better control of patient records. The advent of mail-order pharmacies is another burgeoning threat to the entire retail drug trade.

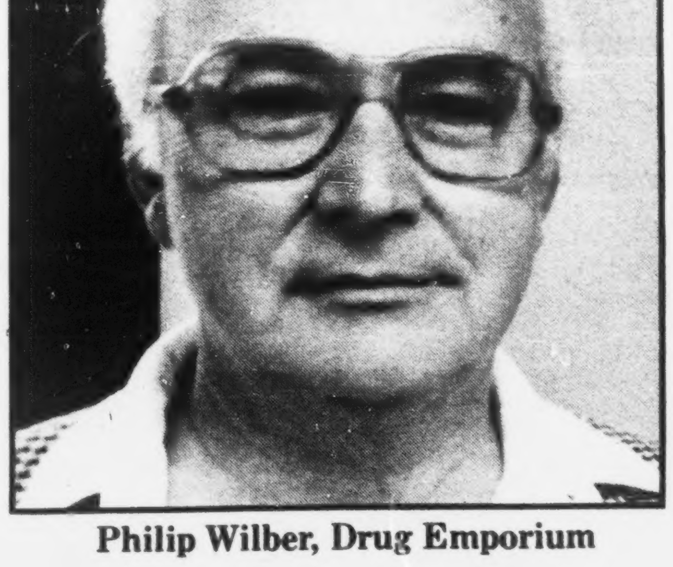
Price hikes lift sales

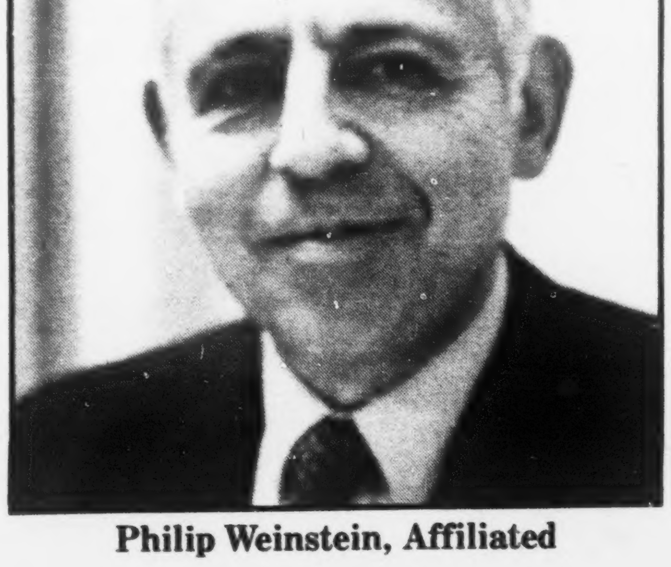
On the bright side for all pharmacies, manufacturer price hikes of 10%-15% annually helped to lift Rx sales nearly 14% in 1985 on an estimated 3% growth in scripts. "Margins may be reduced," said Peoples' Eisenberg, "but dollar contribution to the bottom line will increase."

Leading merchants from major chains also cited other merchandising categories as drug store bright spots to watch in 1986. They include:

- Cosmetics, because of diverted prestige and designer brand fragrances, continued new product introductions by major cosmetics sources and more fashionable department revamps.
- Stationery, to meet the needs of more home offices that call for costlier, step-up merchandise.
- Candy, thanks to European and Israeli imports and consumer acceptance of high-ticket boxed chocolates.
- Home health care, because the populace is aging and more people do self-doctoring and often seek postsurgical wound care products after early hospital discharges.
- Vitamins and minerals, particularly calcium supplements that are popular among older women.
- Family planning centers, including birth control devices and home pregnancy testing kits.
- In housewares, ultrasonic humidifiers, fashion-colored personal care appliances and microwave cookware.
- In photo, 35mm automatic cameras.

Merchandising executives also felt wholesale pricing wouldn't hurt them in 1986. Most estimated 2%-3% cost hikes this year that they may or may not pass along to customers, depending on the competitive environment.


Philip Wilber, Drug Emporium


Philip Weinstein, Affiliated

PRODUCTS

Rx sales rise 14% but gross profit dollars off 2%

Despite a banner year that saw chain drug prescription sales rise nearly 14% to $7.7 billion, an increasing number of third-party prescriptions were responsible for a 2% decrease in gross profit dollars, according to a nationwide *Drug Store News* survey.

Prescription sales were sparked by an 8.9% increase in average prescription price and 5% growth in the number of scripts filled.

The price of an average chain drug script in 1985 rose to $12.25 from $11.25 last year, while the number of scripts filled by the average chain pharmacy increased to 34,265.

While consumers got more prescriptions filled in 1985, the survey showed that a greater percentage of those scripts were on third-party plans.

The survey revealed that the average number of third-party plans being accepted at drug stores increased 20.7% and that the total number of scripts filled on those plans rose 2.2%.

Many third-party programs reimburse pharmacies on the basis of average wholesale price plus a fixed fee. The result is almost invariably a retail price that is considerably less than what a private patient would pay.

In an attempt to offset eroding margins, many chains instituted cost-cutting measures, including shortening hours and holding the line on additions to pharmacy staffs.

The survey showed that in 1985 the average chain drug store pharmacy stayed open one hour less a week than it did the previous year. And although the number of prescriptions rose (1% throughout the industry and 5% in chains), the average number of full- and part-time pharmacists remained the same. The only area in which the chains reinforced the pharmacy work team was in part-time technicians, up 24% from the previous year.

Pharmacists were expected to fill more prescriptions per year, and indeed they did—and computers helped them do it. The survey showed that productivity per pharmacist rose 5.7%, with the number of scripts filled per pharmacist hour at 9.2, compared with 8.7 the previous year.

But third-party involvement alone cannot be blamed for eroding gross profits. Heavier generic use and a reluctance by pharmacists to pass along branded drug company price increases to cash-paying customers added to the pharmacy's profit problems.

The pharmaceutical industry began to feel the full impact of generics last year when the Drug Price Competition and Patent Term Restoration Act of 1984 took its full effect.

Basically, the law provided generic companies with an abbreviated new drug application (ANDA) for post-1962 drugs in exchange for extending patents on drugs that were issued after Sept. 24, 1984.

Shortly after the law's passage, more than 20 generic companies inundated the FDA with hundreds of ANDA's.

Included in the list of drugs eligible for ANDA's were some of this country's best-selling prescription products.

One heavy hitter caught in the generic crunch was Roche's $354 million tranquilizer, Valium (diazepam).

Generic manufacturers claimed they could sell the generic tranquilizer at 25% to 35% less than its branded counterpart.

Around the same time, several generic companies announced they would be releasing a generic version of propranolol, a beta-blocking drug exclusively manufactured by Ayerst as Inderal. Inderal accounted for approximately $325 million in sales in 1985.

An Amityville, N.Y.-based pharmaceutical company, Quantum Pharmaceuticals, was given the green light to market a generic version of Wyeth's $150 million tranquilizer, Ativan (lorazepam).

According to a list released by the Department of Health and Human Services last September, nine of the nation's 10 most heavily prescribed drugs are now available to consumers as generics.

With Valium, Inderal, Motrin and Darvocet-N now available generically, the only single-source product remaining among the top 10 is SmithKline's Tagamet.

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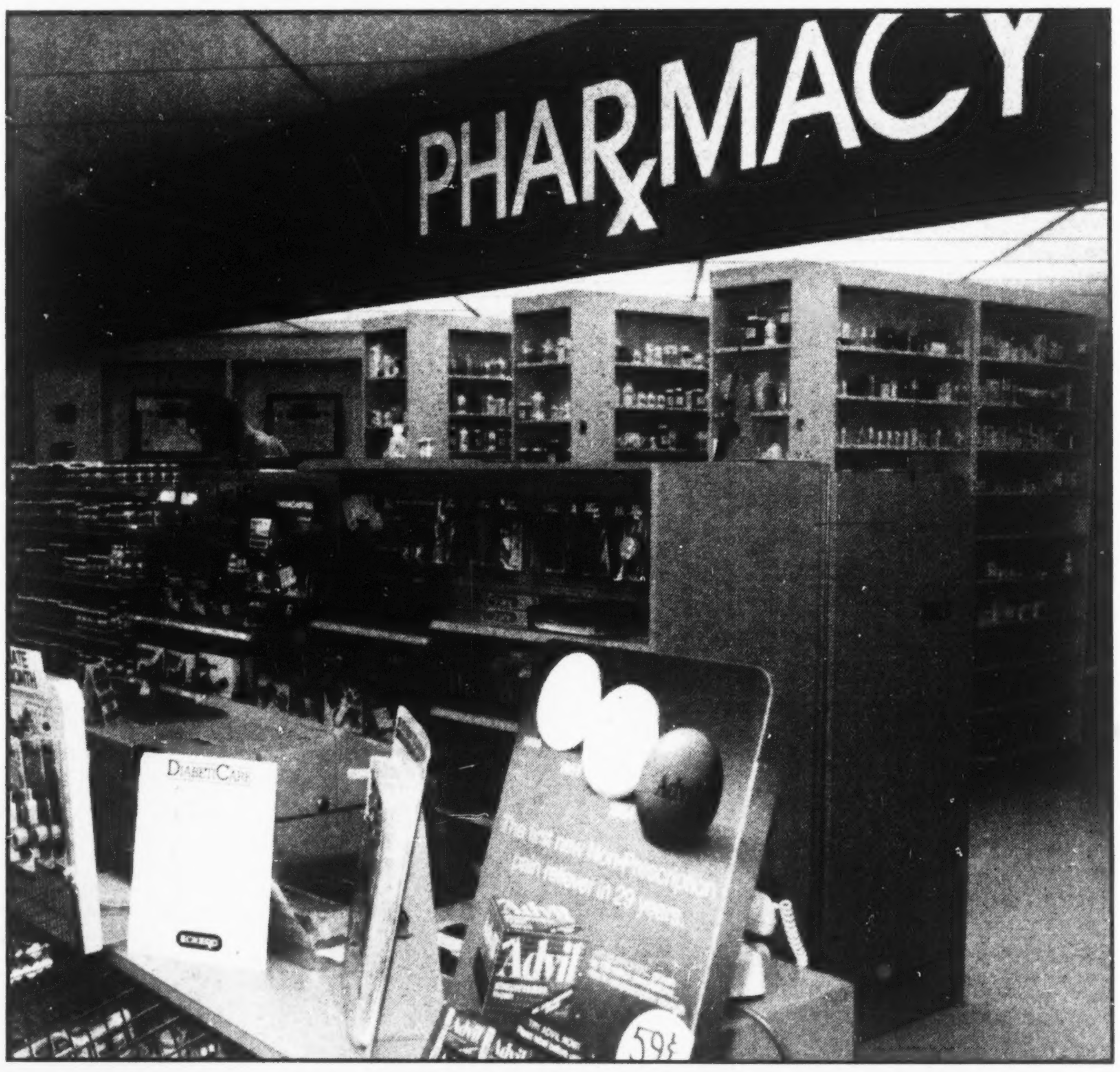
Prescription department summary

	1984	1985	% change
All drug stores			
Consumer sales ($ millions)	$17,930	$19,902	+11.0%
Scripts (millions)	1,542	1,557	+ 1.0
Average Rx price	$11.62	$12.78	+10.0
Scripts/store/year	30,408	29,379	− 3.4
Stores	50,709	53,000	+ 5.1
Chain drug stores			
Consumer sales ($ millions)	$6,733	$7,669	+13.9
Scripts (millions)	604	634	+ 5.0
Average Rx price	$11.25	$12.09	+ 7.5
Scripts/store/year	34,197	34,271	+ 0.2
Stores	17,677	18,500	+ 4.7

Source: *Drug Store News* survey



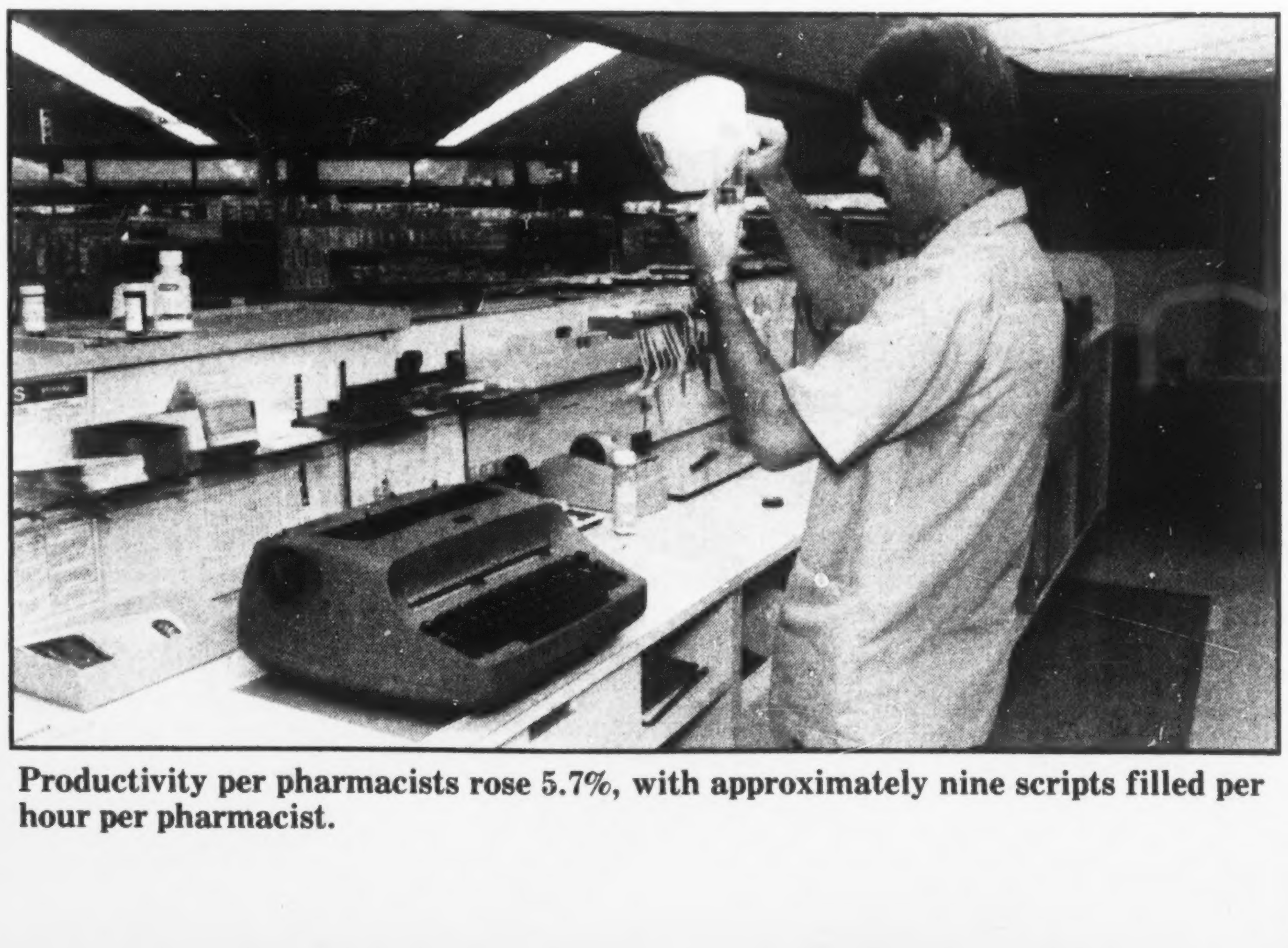
The number of prescriptions filled by the average chain pharmacy increased to 34,265 in 1985. The average price of a script was $12.25.

Top 10 products in U.S. pharmacies

($ in millions)

1985 Rank	1984 Rank	Product	Manufacturer	1985	1984	% Change
1	1	Tagament	SK&F	$397.9	$369.9	+ 8%
2	2	Inderal	Ayerst	371.5	350.8	+ 6
3	12	Zantac	Glaxo	290.2	176.3	+65
4	3	Dyazide	SK&F	281.9	259.1	+ 9
5	10	Tenormin	Stuart	253.1	181.2	+40
6	6	Feldene	Pfizer	240.5	207.9	+16
7	5	Valium	Roche	234.6	219.5	+ 7
8	4	Ortho-Novum	Ortho	233.3	232.9	—*
9	8	Naprosyn	Syntex	231.5	200.3	+16
10	9	Keflex	Dista	210.7	190.0	+11

*Does not include Ortho-Novum 777
Source: Pharmaceutical Data Services



Productivity per pharmacists rose 5.7%, with approximately nine scripts filled per hour per pharmacist.

PRODUCTS

Although the number of scripts filled rose, the average number of full- and part-time pharmacists remained constant.

Number of scripts filled rises 5%

Continued from page 41

Generic fever has clearly caught on. Government regulatory agencies and state governments view generics as a way to cut expenses of an overburdened Medicaid program. Private sector third-party administrators see generics as a way to sell their plans more cheaply to large corporations and HMO's, and other third-party providers of health care have begun to demand the use of generics. The threat: no reimbursement.

State formularies mandating specific products to be dispensed in drug stores began sprouting up everywhere, and generic substitution showed marked signs of increasing nationwide.

Substituting generics increases

In 1985, pharmacists substituted generics more than ever before. According to the Lebhar-Friedman research, the number of pharmacists substituting increased more than 20% last year, reaching its highest level ever, and accounted for nearly one-third of all chain store prescription sales.

To encourage substitution, several states considered generic incentive programs to reward pharmacists for making substitutions.

One such program was put into effect in Connecticut last year and proclaimed a huge success. Pharmacists are being paid 50¢ every time they save the state $2 or more on a Medicaid prescription by substituting a generic for a branded product.

On a national level, cost-cutters are urging other state drug programs to consider similar incentive programs.

Several chain drug stores met the increased demand for consumers seeking generics with marketing programs that stressed the quality of generics they dispense.

Eckerd introduces PAQ

Eckerd Drug, for example, rolled out a program called Pharmacist Assured Quality (PAQ). Through the program, generic drugs used by the Clearwater, Fla.-based chain must pass an 18-step selection process. If a drug fails any one of the steps, it will not be included in a list of "Eckerd Brand Equivalents" distributed to each store.

In an attempt to hold onto existing market share for prescription drugs, branded manufacturers are feverishly trying to develop new drugs. But this places them in a Catch-22 situation. The companies claim the only way to step up research and development is to raise wholesale prices of existing drugs in the market.

According to the Pharmaceutical Manufacturers Association, research and development expenditures, as a percentage of domestic sales, were more than 15% in 1985, up from less than 12% five years ago.

Efforts are under way by the association to speed up FDA new-drug approvals to get drugs into the mainstream quicker.

According to PMA, in recent years the mean time required to approve a new drug has ranged between 28 and 39 months, with a mean of about 32 months in 1985.

Ad campaigns launched

Several branded manufacturers have also launched aggressive advertising campaigns aimed at physicians. The message: Mark "dispense as written" on the prescriptions they write.

Overall, the increase in prescription business has made the pharmacy the focal point of their strategic plans.

Several chains have installed consultation areas where pharmacists and patients can discuss in confidence the use and side effects of medications.

At Gray Drug Fair, Cleveland, remodeling emphasis has been focused on making the pharmacy department more visible to the consumer, and in Florida, pharmacists are now allowed to prescribe a selected list of drugs.

Pharmacy departments nationwide are actively seeking contracts with high-volume HMO's in an attempt to offset slumping margins with higher prescription volume.

And there is talk in the industry that some pharmaceutical companies are posed to enter into a direct-to-consumer advertising campaign of prescription drugs to help boost their sales.

On balance, 1985 was a good year for the prescription drug business at the retail pharmacy level. Despite lower gross margins, pharmacists are filling more prescriptions, and that is increasing much-needed traffic flow into the store.

Major new drugs introduced in 1985

Drug Name	*Company*	*Category*
1. Trental tabs (pentoxifylline)	Hoechst-Roussel	Hemorheologic agent
2. Glucamide tabs (chlorpropamide)	Lemmon	Blood glucose lowering agent
3. Tonocard tabs (tocainide HCl)	MSD	Oral antiarrhythmic agent
4. Maxide tabs (hydrochlorothiazide 50mg triamterene 75mg)	Lederle	Diuretic/ antihypertensive
5. Triphasil-21/28 (levonorgestrel and ethinyl estradiol)	Wyeth	Oral contraceptive
6. Tornalate metered dose inhaler (bitolterol mesylate)	Winthrop-Breon	Bronchodilator
7. Merital caps (nomifensine maleate)	Hoechst-Roussel	Antidepressant
8. Pilopine HS gel (pilocarpine HCl 4%)	Alcon	Eye therapy
9. Trexan tabs (naltrexone HCl)	Dupont	Opoid antagonist
10. Erycette topical sol. (erythromycin)	Ortho	Acne prep
11. Opticrom sol. 4% (cromolyn sodium)	Fisons	Eye therapy
12. Benzamycin topical gel (erythromycin 3%/ benzoyl peroxide 5%)	Dermik	Acne prep
13. Fioricet tabs (butalbital/acetaminophen/ caffeine)	Sandoz	Tension headaches
14. Marinol caps (dronabinol)	Unimed	Antiemetic
15. Seldane (terfenadine)	Merrell Dow	Antihistamine

Source: PharmIndex

In 1985, the average chain drug store stayed open one hour less per week than in 1984.

PRODUCTS

Outlook is bright for home health care category

In 1985 Perry Comfort Care opened in Dearborn, Mich., marking the first time a drug chain joined forces with a major health care organization to provide home health care products and services.

The statistics are impressive. In 1980, 25 million people in the United States were over 65, about 10% of the total population. In 1990, that number is projected to burgeon to 38 million, or 18% of the population.

The graying of America is opening up a market in home health care products, forecast by analysts to grow and grow and grow. Consider the estimates. Fred R. Patterson, Johnson & Johnson manager of home health care marketing, said the current market is worth $10 billion. The market is projected to mushroom at least another 50%. Take another statistic, from the Cleveland-based research firm Predicasts, which estimates that by 1995, home health care products and services could top $24.8 billion.

And with many hospitals discharging patients earlier because of increasing pressure to control health care costs, analysts predict that home health care is very much the wave of the future.

Moreover, industry surveys reveal that a drug store with even a limited line of home health care supplies and a few durable medical items can realize 17% of its total volume from the category, said Charles M. West, executive vice president of the National Association of Retail Druggists, at a meeting last year.

Citing a survey of 400 NARD members conducted by Johnson & Johnson, West said that when drug stores expanded the category to include diagnostic devices, ostomy products, supports and appliances, the overall category "then contributed an average of 24% of total volume." When a pharmacy included a complete line of equipment and supplies, plus professional detailing, the category contributed more than 25% of total volume.

Despite the promise of the category, the nation's drug store chains have moved somewhat reluctantly into the home health care business. Only a handful of chains, such as Perry and Hook, have made a commitment to freestanding home health care centers, but many more are testing the waters by putting some home health care products into the merchandise mix and offering products through in-store catalogs.

Adult diaper line grows

The line of products most often seen in drug stores is disposable diapers for incontinent adults, a category estimated to grow from $208 million in 1983 to $495 million in 1990. Occasionally, such products are merchandised in a home medical care center, but more often they are found in the first-aid section.

One chain that has recently made more of a commitment to the category is Walgreens. The chain reportedly has set up a Home Health Care Center in Arizona that exclusively supplies prescriptions and home health care supplies to a major insurance company.

Moreover, in many of Walgreens stores, particularly those in neighborhoods with a high number of senior citizens, the chain has installed home medical centers stocked with incontinence and other home medical products. The category is also promoted by signage that states Walgreens has a nationwide delivery service and urges customers to ask the pharmacist about health and self-care supplies for home use.

In 1985, however, it was Perry Drug that took a significant leap into the home health care business. Last year, Perry ComfortCare opened in the Detroit suburb of Dearborn, making the first time a drug chain joined forces with a major health care organization to provide home health care products and services.

The retail store is a joint venture of Perry and the Henry Ford Health Care Corp., the parent company of Detroit's 980-bed Henry Ford Hospital. The hospital, with 450 physicians, has the country's second largest group practice, and the referrals from those doctors have been a valuable asset for ComfortCare.

Perry's ComfortCare Dearborn facility also included the chain's first institutional pharmacy, and it stocked a full line of durable and nondurable medical devices. The store sells and leases the devices. The chain plans on opening more ComfortCare stores with or without a partner in the future.

Another chain that last year made headlines with its first foray into the home health care business was the regionally powerful food/drug combo chain, Pathmark.

Last year, Pathmark began offering about 400 different medical items for sale or rent from small kiosks within its stores. It was a no-risk proposition, as Pathmark lent its name to the business and provided the space for the kiosk, but did not have to add extra personnel, inventory or equipment. The kiosk, in fact, was a joint venture with Professional Equipment Corp. of Hicksville, N.Y., a subsidiary of a 10-year-old home health care personnel provider, Health Extension Services.

Last year, Pathmark tested four of the kiosks in Pathmark supermarket pharmacies and one in a Pathmark drug store.

Pathmark took the concept of in-store catalog merchandising of home health care products one step further than drug chains such as Thrift and Perry. It added a direct hot-line phone system for immediate ordering. As part of each service, there is free delivery, instructional support and installation. The phone lines are open daily and Saturdays, and operators are on call for emergency service 24 hours a day throughout the week.

Independents' interest grows

Last year also marked a renewed emphasis on home health care among the nation's independent drug stores. NARD's Charles West said that last year more than 60% of association members "provided some form of health care services." He added that 72% of stores with annual sales of $750,000 or more are in the business.

Hospitals are another contender in the market. About 11% of all hospitals had established hospital-based home health care agencies by 1985. Moreover, last year, overall, there were about 5,000 home health care agencies in the United States, with about 3,600 Medicare certified agencies.

Consultant says split category into medical, consumer products

How do drug stores accommodate customers who need home health care products, and how does the category fit into the overall merchandise mix in a chain drug store?

Drug Store News spoke to Teri L. Louden, president of Louden & Company, a Chicago-based health care consulting firm specializing in strategic planning and marketing, to find out some answers to these questions.

Louden stressed that drug store retailers should envision home health care as a diversified business requiring operators to segment it into durable medical devices, such as wheel chairs and respiratory equipment, and consumer products, such as diagnostic kits, canes and incontinence pads. The former requires referrals from physicians, a reimbursement system entirely different from third-party prescription systems and professionals trained to custom fit devices such as prostheses. The latter, however, require some space commitment, adequate signage, and training of drug store personnel as to how some of the self-aid home health care products work.

Chains that want to test the durable medical device tack should realize that it "is a complete departure from their existing business," said Louden.

On the other hand, home health care products aimed directly at the consumer, usually with no reimbursement, fit well into the existing drug store mix, she said. She singled out six such categories: back support products; arthritic aids; incontinence products; bathroom aids, such as grab bars and raised toilet seats; self-diagnostic kits; and occupational health products such as utensils especially made for arthritics.

She also noted that such products should be marketed to senior citizens who might find the products helpful in daily living.

PRODUCTS

Rx-to-OTC switches boost proprietary sales

Cough/cold, allergy category growing fast

The success of drugs that have been switched from Rx to OTC heads the list of factors contributing to a 14% increase in the average chain drug store proprietaries department.

Overall, OTC drugs rose to $4.1 billion, or about 14.5% of total chain drug sales.

Cough, cold and allergy benefited most from the switching trend. It's been one of the fastest-growing categories in unit sales, dollar sales, and gross profit dollars. It climbed 13% in 1985 to $609 million.

According to a *Drug Store News* annual report of the top 100 OTC's, the cough and cold category accounted for nearly one-third of the top 100 over-the-counter products.

The latest addition to the growing Rx-to-OTC category is Parke-Davis' prescription antihistamine Benadryl.

Hoping to cash in on the $70 million allergy product category, Benadryl is going head-to-head with Schering's Chlor-Trimeton, one of the first drugs to make the switch and which currently holds an approximate 50% share of the market.

Allergy products represent less than 1% of the total OTC market, but that figure may be higher because of consumers who choose an antihistamine to treat the common cold.

According to one analyst, if cold products were combined with allergy, they would account for an additional $550 million in sales, or a combined allergy/cold category of $620 million.

Like Benadryl, the cough and cold category as a whole has been fueled by Rx-to-OTC switches. Almost one-quarter of all the products in the category are switched drugs.

Attesting to the popularity of Rx-to-OTC drugs is Burroughs-Wellcome's Actifed tablets. Once available only by prescription, Actifed in two different package sizes (12's and 24's) was among the top 10 OTC's based on unit sales.

Other switched cough and cold drugs include Schering's Afrin Nasal Spray and Drixoral tablets, Burroughs' Sudafed SA, Robbins' Dimetapp and Parke-Davis' Benylin cough syrup.

Doing almost as well as the cough and cold category are analgesic products. Analgesics boast one switched drug, ibuprofen, formerly available as Motrin and Rufen by prescription.

Out of the gate only a year, ibuprofen products did amazingly well. Whitehall's Advil climbed to the No. 78 spot in unit movement and was 21st among the top analgesic items. As of last year's study, Bristol-Myers' Nuprin did not make the list, but analysts believe that it was because of the product's later introduction; they believe rankings should reflect a sizable gain this year.

1985 Proprietaries department productivity

	Total sales (add 000)	% of increase	% of dept. sales
Analgesics	$416,034	14.2%	10.2%
Vitamins/nutritionals	414,478	12.3	10.1
Cough/cold (tabs/caps/1 oz.)	363,784	15.4	8.9
Cough/cold (liquids)	245,191	10.5	6.0
Antacids	241,103	11.7	5.9
Laxatives	262,109	13.5	6.4
Diet aids	102,635	13.5	2.5
Eye care/lens care	179,907	16.4	4.4
Asthma inhalers/tabs/liq	14,771	9.4	0.4
First aid products	235,786	12.9	5.8
Wets & dries	29,192	8.2	0.7
Feminine hygiene	209,759	16.4	5.1
Family planning	176,626	17.9	4.3
Acne preparations	70,157	10.5	1.7
Sleeping aids	30,678	11.6	6.8
Antidiarrheal/antinausea	71,524	9.2	1.8
Dental care	405,436	14.5	9.9
Baby needs	351,521	13.2	8.6
Footcare products	166,220	13.8	4.0
Home health care	64,075	16.8	1.6
Miscellaneous	35,764	13.2	0.9

But the real breadwinner for the analgesic category continues to be McNeil's Tylenol, even though Bayer aspirin and Anacin talets topped last year's analgesic list, in the No. 1 and No. 2 positions, respectively.

Twelve sku's of McNeil's Tylenol products accounted for almost half the analgesics in the OTC study.

Another Tylenol tragedy

Just when Johnson & Johnson's McNeil thought it had fully recovered from the 1982 Chicago tragedy, a similar incident took place earlier this year. A 23-year-old Peekskill, N.Y., woman died after taking a cyanide-laced Extra Strength Tylenol capsule.

This latest cyanide scare not only cost the company $550 million in sales, but its decision to pull capsules from the marketplace altogether was one of monumental importance. For the first time in history, a major OTC dosage form was in jeopardy of becoming extinct.

Shortly after the tampering incident, McNeil began promoting its cap-

Continued on page 48

OTC drugs rose to $4.1 billion, or about 14.5% of total chain drug sales in 1985, with Rx-to-OTC switches contributing to increase in average chain drug store proprietaries department.

ACTIFED
ACTIFED
ACTIFED
ACTIFED
Medicine
DRIXORAL
DRIXORAL

Burroughs-Wellcome's Actifed, Schering's Drixoral tablets are among drugs switched from Rx to OTC status.

PRODUCTS

Dental care items accounted for 9.9% of proprietaries department sales in 1985.

Antacids sales increased 11.7% in 1985, accounting for 5.9% of proprietaries department sales.

1985 OTC/proprietaries department highlights	
Chain drug OTC/proprietaries sales	$4,086,749,000
1985 percentage increase	13.7%
Percentage of total chain drug sales	14.5%
Typical gross margins	30% to 35%
Industry profit yield from OTC/proprietaries last year	$1,225,-$1,430,000,000
Average no. of annual dept. turns	5

Continued from page 47

let form of Extra Strength Tylenol as well as other Tylenol dosages and appeared to be on the road to financial recovery.

While the FDA and several industry leaders were calling J&J's capsule pullout premature, tragedy nearly struck again, this time with SmithKline's capsule products Contac, Teldrin and Dietac as the terrorists' targets.

SmithKline, reacting to a phone call, pulled the products out of stores in Orlando, Fla., and Houston. After testing, it was revealed that the capsules in question contained traces of warfarin, a rat poison.

Three products recalled

SmithKline recalled the three products nationwide and announced it would reintroduce some of them in new packaging and several dosage forms later this year. The three products accounted for $61 million in retail sales and 42% of the total generated by Menley & James, the SmithKline subsidiary that manufactures them.

The tampering incidents once again raised questions in the minds of pharmacists and consumers as to whether certain OTC products should be sold only by a pharmacist, a so-called third class of drugs.

Such a bill, which would have created a third class of drugs in Illinois, was put on hold after meeting stiff opposition from the Proprietary Association (PA), senior citizen groups and labor and management organizations.

Calling the bill a "druggist monopoly," the PA said it would deny consumers the right to buy the same products at convenient locations of their own choice and at competitive prices.

Pharmacists' willingness to discuss OTC medication instructions was cited in one survey as a reason consumers choose a particular pharmacy.

But according to Alan Granat, Illinois state pharmacy association leader, the separate class of drugs would only include those recently switched from Rx to OTC status.

"The pharmacist's role here is a major one in counseling patients who desire to try the new products," said Granat. "The bill is just an interim measure and does not create a monopoly."

But while pharmacists may have been shot down in Illinois, pharmacists are chalking up a victory.

Florida paves way

Pharmacists in the Sunshine State have been granted permission to prescribe a selected group of prescription drugs without a prescription. While the list contains no OTC drugs, some observers feel the new law basically endorses a third class of drugs concept.

According to a consumer survey from Schering Laboratories, pharmacists may be in the best position to sell OTC's exclusively.

In a nationwide survey commissioned by Schering called "What's Right with Pharmacy!" consumers gave their reasons for choosing a particular pharmacy.

First on the list was availability of the pharmacist to give advice, second was location, third and fourth were the pharmacists' willingness to discuss OTC instructions and his or her recommendations on OTC medication.

Education program launched

Schering, with its large stake in the lucrative OTC market, has also launched a program designed to educate consumers about the safe and effective selection and use of over-the-counter medication. The company's public information campaign, "Medi-Sense," gives consumers enough knowledge to choose from the more than half-million nonprescription medications on the market.

To carry out the program, Schering hired Dr. Burt Prater, a board-certified family practitioner specializing in preventive medicine and patient education.

"Americans spend over a billion dollars on cold, cough and similar OTC medications every year," said Dr. Prater. "There are so many claims made for these products that people often take medications they really don't need."

Buyers dissatisfied

If OTC manufacturers want to make even stronger inroads into chain drug stores, they'll have to alter the way they do business, buyers told *Drug Store News* in its OTC Buyer Survey. The majority of OTC buyers said they aren't satisfied with the caliber of most of the information given them during visits with OTC manufacturers' reps.

Buyers want better information on return policies, new products, invoice dating terms, allowances and upcoming manufacturer-sponsored consumer advertising campaigns.

Only one-fifth of the sample described themselves as "very satisfied" with the information received. In one area, return goods policy, nearly 9 out of 10 said they were unsatisfied or just moderately satisfied with the information they were receiving.

PRODUCTS

Toiletry department sales climb 11.1% to $3.5B

Drug chains had to pare margins to compete with other retailers, particularly food stores, which marketed mousse in 1985.

The fastest-selling toiletry items of 1984 were victims of their own success in 1985 as a flood of me-too products cut into potential sales gains and eroded profits.

The toiletries department, however, remained a powerhouse of the drug store business, with sales climbing 11.1% to a total of $3.5 billion, making the category the biggest producer of all drug store fare outside of pharmacy and OTC products.

But buyers lamented that sales increases could have been even higher if manufacturers had debuted innovative products rather than copycats of 1984's stellar performers.

The mousse category is where the problems began, as virtually every vendor rushed a mousse to the market. At one time, manufacturers estimated mousse and gel sales would crack the $300 million mark. Last year's volume, however, settled in closer to $175 million. Mousse sales in drug chains rose 12.6% to $53.9 million. What really hurt was that drug chains had to pare margins to compete with other retailers, especially food stores, which became more aggressive in the mousse category.

In 1984, retailers were able to enjoy gross margins as high as 35% in mousse. But the spate of new brands, coupled with competitive market situations, knocked margins down to 20%-25% last year. The seams are bursting on the mousse department, and many buyers said they are sticking with only the fastest movers, which are: L'Oreal Freehold, with a market share in the 20% range; Alberto Culver's Alberto Mousse European Foam; Suave; Sassoon; and Clairol Condition Mousse. L'Oreal's new Studio Mousse, aimed at a younger market, is said to be catching on and should grab a healthy share during 1986, retailers said.

Other trends in the mousse category include a move toward larger cans (L'Oreal debuted an 8-oz. size in 1985; Alberto, a 9 oz.), because consumers sense mousse is too costly if it doesn't last more than a few weeks. To that end, smaller cans are being discontinued. The cost of bottling mousse also has dropped now that the aerosol cans are easier to procure.

Deodorant volume was up 11.8% during 1985 to $354 million. Again, retailers fear too much of a good thing will hinder sales. The biggest success story during the last few years has been solids, particularly wide-mouth forms. Pat Triboletti of Happy Harry's Discount Drug in Newark, Del., said this form has rearranged the breakout of sales that used to be equally split among the three forms. Now, he said, solids and rolls command better than 75% of the business. Mennen's Speed Stick, which has a 26.2% share, has been a catalyst of the trend, along with the fear of aerosol damage to the ozone layer. Mennen enjoyed impressive results from its Lady Speed Stick line extension last year. Now retailers fear all manufacturers will join the wide-stick craze.

Already, one source said, Procter & Gamble has plans for wide-stick Sure and Secret forms in addition to the other Sure and Secret sku's.

"As a category, growth is not all that fast," the source added, "so how can we support more items?"

Hair color glut

A third category where too many new products tarnished 1985 sales gains was hair color. Although more and more women are reaching the graying years—which should portend greater hair color volume—retailers are not enjoying the hair color business they had hoped for. They say there are too many sku's carrying "dreadfully" high price tags. L'Oreal's Avantage, buyers point out, has been very slow out of the gates.

Continued on page 52

Deodorant volume was up 11.8% during 1985 to $354 million. The biggest success recently has been solids, particularly the wide-mouth form.

1985 Toiletries department productivity

	Total sales (add 000)	% of increase	% of sales
Handcream/skin care	$370,593	12.1%	12.2%
Deodorants	354,032	11.8	11.6
Men's toiletries	333,001	10.5	10.9
Shampoos	331,330	12.1	10.9
Hair color	283,076	8.8	9.3
Rinses & conditioners	205,365	11.8	6.7
Body creams & lotions	140,599	10.9	4.6
Ethnic (incl. black cosmetics)	200,759	12.5	6.6
Hair notions	108,910	7.7	3.6
Razors/incl. disp. blade	144,141	12.0	4.7
Hair sprays	114,031	11.4	3.7
Suntan/sunburn	146,229	14.2	4.8
Shave creams	44,467	12.9	1.5
Mousse/styling gels	53,898	12.6	1.8
Perms/straighteners	24,546	7.4	0.8
Depilatories	10,269	5.3	0.3
Miscellaneous	182,042	7.8	6.0

PRODUCTS

Hair color sales were up 8.8% in 1985, to $283 million. Retailers hope temporary coloring mousses will ignite hair color sales this year.

1985 Toiletries department highlights	
Chain drug toiletries sales	$3,047,289,000
1985 percentage increase	11.1%
Percentage of total chain drug sales	10.8%
Typical gross margins	25% to 30%
Industry profit yield from toiletries last year	$760,-$915,000,000
Average no. of annual dept. turns	5

Toiletry dept. sales up 11%

Continued from page 51

"We knew the business was in trouble," said one buyer for an East Coast chain, "When Clairol had a one-free-with-one promotion last year."

Hair color sales were up slightly, 8.8%, to $283 million in 1985. For 1986, retailers are pinning their hopes on temporary coloring mousses as a way to ignite hair color sales. Clairol recently launched Pazazz, a temporary color mousse that the company hopes will lure teen users. Roux and Sassoon also feature mousse products with color.

"New for a day"

By now it is no secret the shampoo and conditioner market is overburdened with sku's. The rash of new product launches has retailers scrambling to find shelf space. It has become such a hectic category that a new shampoo is only "new for a day," joked a source at Clairol. And, added one retailer, a $10 million advertising budget is nothing but a drop in the bucket.

According to those polled, vendors may be wise to stick with the tried and true, such as extra-body or regular formulas. Today's shampoo and conditioner consumer seems to be looking for basics such as Head & Shoulders, Flex, Sassoon and White Rain.

Shampoos, of course, are still big business, accounting for more than $2.1 billion through all outlets, with conditioners generating an additional $800 million. In drug stores, shampoo volume rose 12.1%, while conditioner sales were a little slower at 11.8%.

For 1986, retailers are anxiously awaiting the arrival of the first revolutionary product in some time—S. C. Johnson's L'ENVIE by Agree. The shampoo and conditioner line is the first to tout fragrance over performance. The products have scents inspired by much-sought-after perfumes, including Vanderbilt, White Linen and Giorgio. S. C. Johnson, however, was recently ordered to change its packaging to include a disclaimer that the products do not actually contain the perfumes.

Ethnic category suffered

The ethnic category, once the darling of the toiletries department, suffered as blacks abandoned the curl look and curl kits. Sales were up only 12.5%, instead of the huge 16.8% registered in 1984.

Men's toiletries still did not reach the high sales peak vendors have been promising for years. Volume crept up only 10.5%.

"It still remains that on Mother's Day, mom gets a present," said Triboletti, "but if dad doesn't get one, that's O.K."

Gillette's Brush Plus was about the only exciting item in men's toiletries last year, but many retailers report sales now slackening on this item, which moves best on promotion.

Perms and straighteners sales were lackluster. As of the last audit, Ogilvie had managed to secure its lead with 18.8% of the market, according to A. C. Nielsen. L'Oreal was down slightly to 10.6%, Rave garnered 14.4%, and Toni, 14.3%.

In hairsprays, sales rose to $114 million, up 11.4%. Retailers see a trend to downsizing and lower spray prices.

Finally, one of the brigher spots in the category last year was suntan/sunscreen items. Drug stores sold more than $146 million of sun care items last year, a 14.2% increase over 1984.

Men's toiletry sales up 10.5% to $333M

Men are discovering they can be macho and smell good too

Total men's product sales reached $333 million on a 10.5% sales increase, and continue to climb, as men discover that their macho images are not tarnished by the attention they pay to keeping groomed. Although women's fragrances still outsell men's 10 to 1, such prestige products as Aramis and Polo have helped account for impressive figures in those departments.

Sales of the top mass men's items owned their success to better national and co-op advertising schedules. Coty's Stetson held the No. 1 position in this category, as a result of aggressive advertising and clever promotions. Jovan for Men and Chaps also held onto their positions, and such items as Old Spice and English Leather continued to draw the more traditional male customer.

Nevertheless, men's fragrances still take a backseat to women's when allotted shelf space, and women still buy the bulk—80%—of men's scents.

Skin balms, after-shave moisturizers and other products marketed as good for the skin have managed to become staple items in the product mixes of most men's lines. But such products as bronzers, skin toners and wrinkle removers for men remained the specialty items of department stores. Some industry observers, however, said that consumers are becoming more aware of these items and more willing to try them.

Items such as Old Spice, shown in a Pantry combination store in California, and English Leather continue to draw the more traditional male customer.

SUMMER VALUES!
SUMMER FUN
SUMMER FUN
SUMMER FUN
SUMMER FUN
NAILS
LIPS
REVLON

Prestige fragrances, often behind locked cabinets, continued to draw traffic last year and brought a more upscale look into many drug stores.

Pegged cosmetics scored a big hit in 1985, with sales rising 10.1% to $329.1 million.

New products, packaging push cosmetics up 9%

Cosmetics sales benefited from many new product and packaging innovations and a resurgence of artificial nail sales in 1985. Department sales rose 9.6% last year to $1.5 billion.

Overall, drug store strength was drawn last year from extra promotions, enlarged departments and upgraded product assortments, particularly in fragrances and nail products.

Indeed, the plethora of coupon books, glossy catalogs and sweepstakes from many of the nation's largest chains helped buoy sales in a category accounting for 5.3% of total drug store sales.

Moreover, many of the ploys the nation's drug store chains are using to lure customers are becoming ever more sophisticated, as mass merchandisers and food stores chip away at drug stores' commanding share of the overall cosmetics market.

Cosmetics smelled like a rose last year, with fragrances registering an 8.8% sales gain to $459 million.

Altogether, fragrances, which include toilet water/cologne, perfumes and body sprays, accounted for slightly less than one-third of the sales in the cosmetics department.

The spiraling growth of the fragrance category was sparked by the body sprays, which, in its second year as a subcategory, made a big splash, capturing $25.1 million in sales, up from $22.8 million in 1984.

In 1985, the big success perfume stories were some of the industry's favorites from the year before, including Forever Krystle, Vanderbilt, Ciara, Halston and Aviance Night Musk. But perhaps the biggest gains in the department came from the prestige, often diverted fragrances, which may account for as much as 30% of fragrance volume in some chain drug stores. Overall, perfumes contributed 5.6% of cosmetics sales and rang up $83.5 million in sales, up 9.7% over 1984.

Prestige fragrances last year continued to draw traffic and bring a more upscale look into many a drug store. Moreover, many chains, such as Peoples, began planograming prestige

Continued on page 59

1985 Cosmetics department productivity

	Total sales (add 000)	% of increase	% of sales
Fragrances	$458,981	8.8%	31.0%
Toilet water/cologne	350,359	8.5	23.7
Perfumes	83,518	9.7	5.6
Body sprays	25,104	9.9	1.7
Pegged cosmetics	329,128	10.1	22.2
Facial treatments	209,506	8.9	14.2
Bath preps	131,379	7.1	8.9
Lipstick/lip color	130,189	10.3	8.8
Nail polish/nail preps	133,739	13.9	9.0
Makeup, powder, cream/liquids	88,154	9.5	6.0

1985 Cosmetics department highlights

Chain drug cosmetics sales	$1,481,076,000
1985 percentage increase	9.6%
Percentage of total chain drug sales	5.3%
Typical gross margins	30% to 40%
Industry profit yield from cosmetics last year	$445,-$590,000,000
Average no. of annual dept. turns	2.3

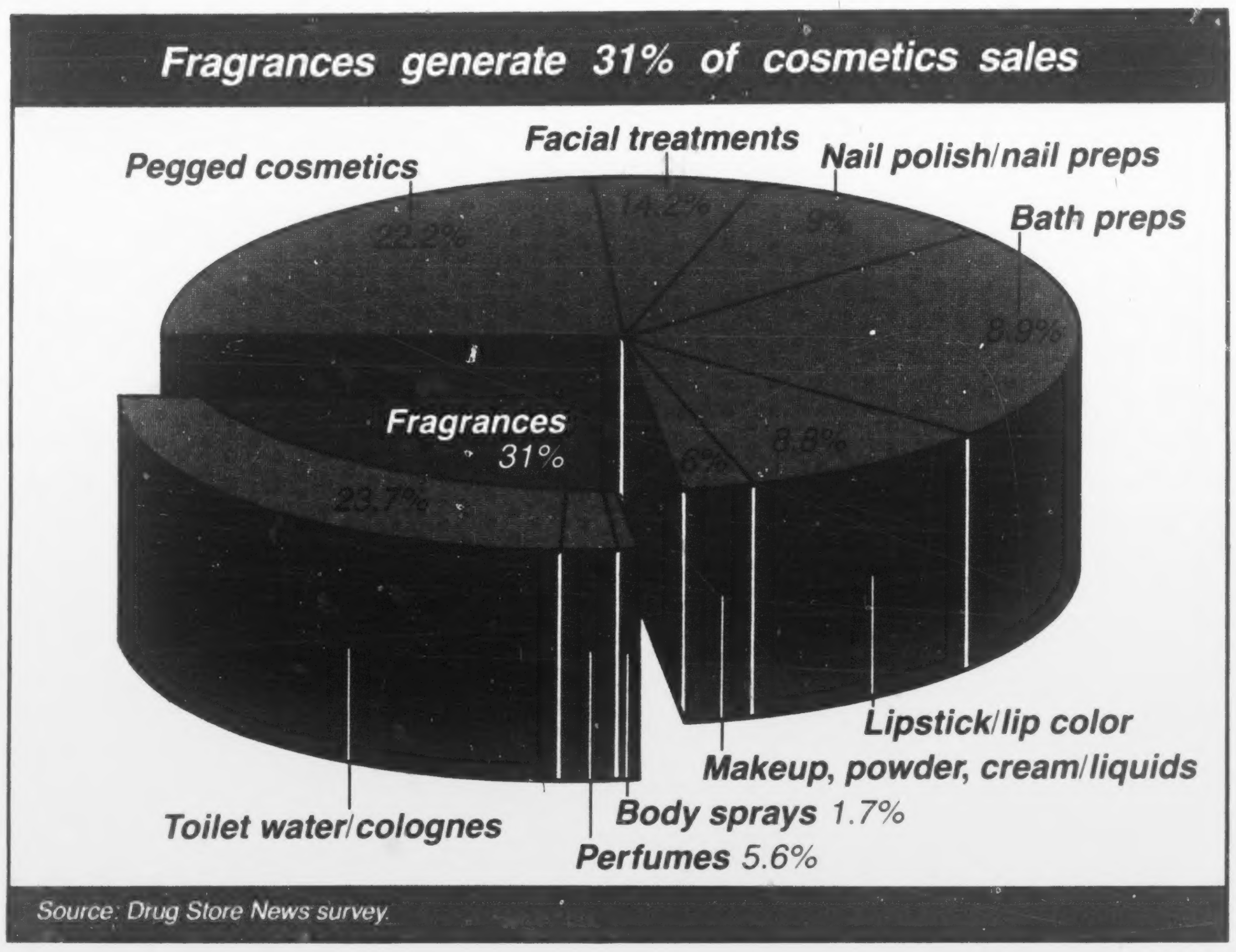
Beauty
Sunshine on a Rainy Day
GREAT FRAGRANCES
by
REVLON
$695
BEAUTY GREATS
REVLON
REVLON
REVLON 20% off retail

Manufacturers' promotions and in-store test samplers were among the many ploys used to lure customers into drug store cosmetics departments last year.

PRODUCTS

Cosmetic depts. becoming more sophisticated

Fragrances generate 31% of cosmetics sales



Source: Drug Store News survey.

Continued from page 56

brands chainwide and offering discounts on some brands. Even though retailers usually do not make much margin on the prestige items, the traffic volume more than compensates for the lack of profits.

The fragrance category was also widened with the renewed excitement in the men's department. Total men's product sales hit new highs last year, and sales climbed in many drug stores. The strongest sales surge was from men's fragrances, especially in the prestige market. Buyers reported brisk movement of Aramis, Polo, Halston and Lagerfeld. And last Christmas a new entry, the "Dynasty"-inspired Carrington, helped spark sales in an otherwise slow yule.

Nevertheless, in both the men's and women's fragrance department, the mass brands continued to sell well last year, especially during Christmas. Many of the top mass brands also continued to enjoy success on the coattails of the designer brands and on better national and co-op advertising schedules.

Knockoffs plentiful

One of the most exciting mass-brand movements last year was in knockoff fragrances—low-priced imitations of high-priced designer fragrances. There were so many knockoffs making the rounds that buyers were having a hard time distinguishing among them all. But almost every chain did move a good deal of the knockoff fragrances and did a brisk business in whatever they chose to carry.

Another major performer in the fragrance category was body sprays, which accounted for almost 2% of the total fragrance dollar. This subcategory has taken off, despite a slow start due to confusion about how the products should be used. However, the success of Body Flowers, Impulse, and, most impressively, Verve, helped move the sprays in drug stores and firmly establish them in the drug store planogram.

Nails starred

One of the big successes of 1985 was the nail department, which rang up nearly $133.7 million in sales, up 13.9% over 1984. It was the most successful performer in the cosmetics category.

Competition heated up last year from newly reformulated and repackaged collections of nail enamels and a huge push in advertising and promotion among such major vendors as Revlon, Max Factor and L'Oreal. The reformulated Aziza Polishing Pen also showed continued strong sales growth.

But perhaps the biggest story was the new entries in the artificial nail category, many of which were supported by hefty advertising budgets. Indeed, along with the artificial nail craze came the nail decorating craze, which continues to show good growth in many chain drug stores.

On the heels of the excitement in the department, many chains revamped cosmetics departments to create space for more nail care products. Peoples added 30 in. of professional products to its existing space. Austin Drug expanded the department to as much as 15 ft. in some stores. These are but two examples among many.

And last year also marked the overwhelming acceptance among consumers of outrageous nail enamels. For example, many buyers were skeptical that L'Oreal's Future Shock summer promotion would go over well. The neon-bright chrome-yellow nail enamel was thought a bit bold. But many buyers, including those in the Midwest, reported the yellow enamel was the fastest-moving item in the line.

On the heels of that success, many vendors brought out a striking array of enamels, ranging from hot pink to bright orange, to lure the fashion-conscious teenager and older woman looking for a little pizzazz to brighten the wardrobe.

Pegged cosmetics upscaled

Upscaling in the pegged cosmetics department also reaped some huge rewards in 1985, as the section garnered more than 22% of the category sales. Last year, pegged cosmetics sales rose 10.1% to $329.1 million from $298.9 million in 1984. Better fixtures and coupon book sales promoting entire lines of pegged brands helped spark sales in this category, which is one of the mainstays of any drug store cosmetics department. The flurry of discounts on many pegged lines awaiting repacking also helped sales, but proved problematic in some areas, as inventories ballooned with the old and new packaged products.

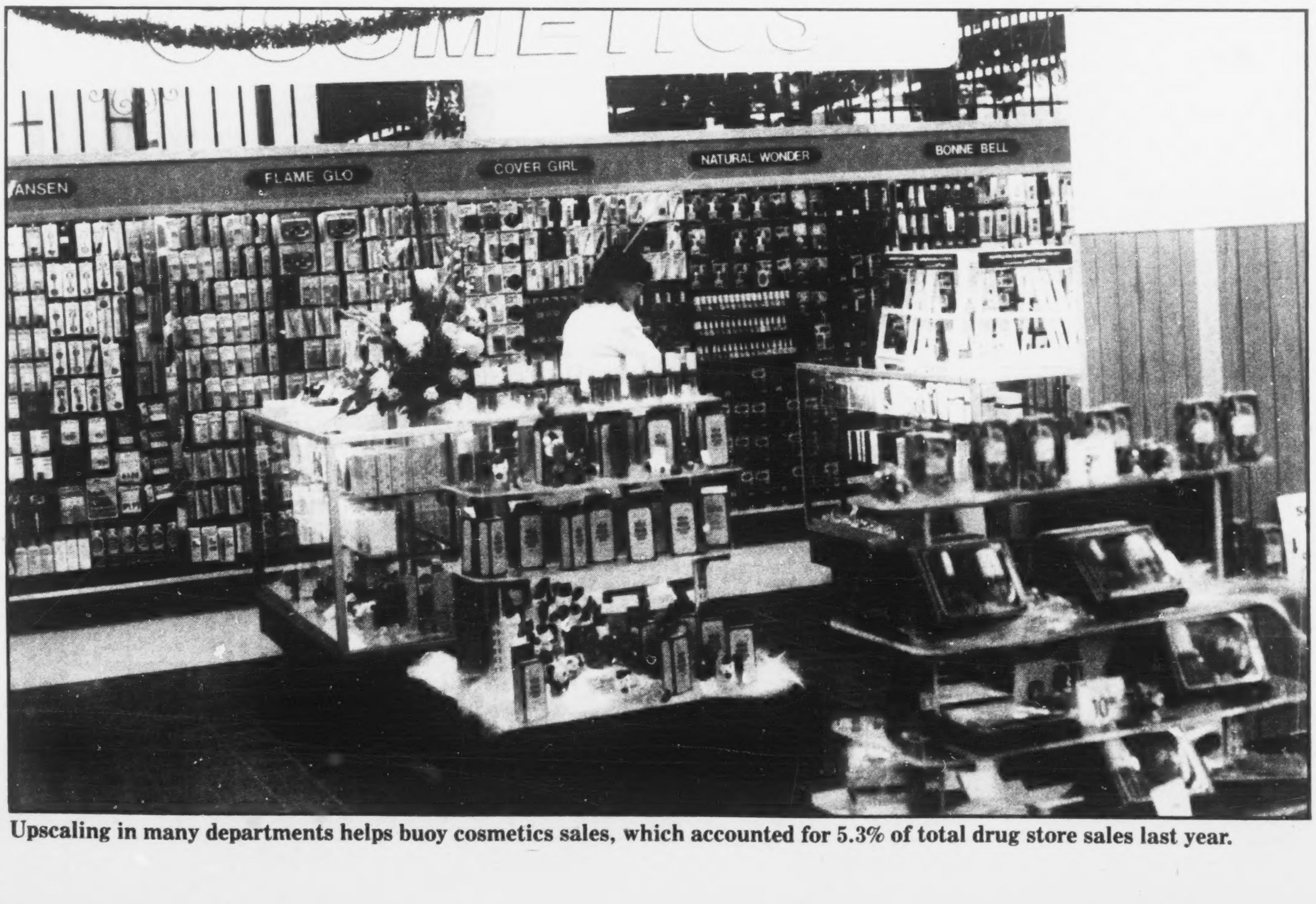
Lipsticks and lip products such as lip repairs made a big impact in 1985 cosmetic sales, ringing up $130.2 million in sales. The 10.3% increase in sales over 1984 was the second largest increase in the category overall. Much of last year's success resulted from the introduction of new lip colors; slick packaging and coupon discounts that translated into sales at the cash register.

Facial treatments popular

Another stellar performer in 1984 was facial treatments, up 8.9% to $209.5 million in sales. Drug stores are increasingly finding this category a sales generator, despite the spate of sku's and the self-assist or cosmetician service required to sell the products. Lines such as Almay were singled out as especially good sales generators, as vendors kicked off some hefty advertising promotions, showing renewed commitment to the drug store market. And facial treatments last year began to mimic their fragrance counterparts, with more and more sku's aiming at the upscale end of the market. Indeed, Almay has been mentioned as the drug stores' answer to prestige facial treatments.

Nevertheless, here again, mass facial treatment lines continued to draw huge sales, especially that perennial best seller, Oil of Olay. Overall, facial treatments contributed more than 14% of the entire cosmetic category sales.

Bath preps also showed a respectable 7.2% sales increase to $131.4 million last year. Vitabath proved a hit, as did the Vanderbilt bath line. And consumers are continuing to show an interest in bath preps as a vital fragrance accessory. Last year, bath preps accounted for nearly 9% of the cosmetic department sales, and continued marketing efforts should further boost sales in this category.



Upscaling in many departments helps buoy cosmetics sales, which accounted for 5.3% of total drug store sales last year.

PRODUCTS

Drug chains add space for broader stationery mix

When a category spins off into more segments, the increased number of sku's translates into more shelf space.

That is what's happening to greeting cards. A year ago, Shoppers Drug Mart devoted 40 running feet; now it's 60. But that's not the millennium. Dalton Van Cleave, national vp-marketing, said, "Now our definition of an ideal department is 112 to 120 ft."

In the last two years, Peoples Drug Stores has increased its space 20 running feet as the chain remodeled or opened new stores.

With this has come a proliferation of manufacturers. The 1940's saw 125 card manufacturers; the 1970's 200; and the 1980's, 500.

Drug retailers are accommodating the new subclassifications because greeting cards have a lot going for them: average ticket of $1, multiple sales, lack of consumer price-resistance, 50% margins, and up to 6% of a store's volume.

Indeed, card sales grew 14.2% in 1985 to $462.9 million, accounting for more than one-third of stationery department sales.

Total stationery sales kicked up 12.7% to $1.35 billion, accounting for 4.8% of drug chain sales in 1985.

Changing lifestyles and new technology have buoyed sales.

Divorce cards are a good example of changing lifestyles. When the divorce rate peaked in 1973, divorce cards failed to make a dent because people weren't ready to accept divorce as a fact of life. However, in the 1980's, awareness and acceptance caught up with the statistics, and sales have responded.

Other growth categories include: cards related to business—more formal in tone and reflecting the corporate image; ethnic cards, with Hispanic the fastest-growing—especially in the Southwest, Northeast, California and Florida; cards that communicate intimate feelings, such as American Greetings' In Touch and Hallmark's Love Talk; and whimsical, Yuppie, photographic and musical cards.

Total stationery sales increased 12.7% to $1.35 billion in 1985, accounting for 4.8% of drug chain sales. Shown is a unit of Austin Drug in Plainview, N.Y.

Traditional cards have upsurged, too. For example, unit sales of religious cards have increased 2%-4% annually since 1982.

Also helping traditional cards appear less traditional is new technology, which is evident in creative designs and shapes, laser-cut laces, pastel envelopes and fashion colors from Paris and Milan.

Greeting card placement

What is the best location for greeting cards? Shoppers Drug Mart, which traditionally placed cards in the back of the store, is experimenting with the front, near cosmetics. Said Irv Bain, executive vp-marketing for Shoppers, "We feel there is a similar ambience and environment for our target customers."

After Adams Drug had placed cards "in just about every nook and cranny," according to a top merchant at the chain, it opted for proximity to cosmetics; SupeRx, too.

At May's Drug, a high-traffic location is a must, but that varies according to store layout. Said Bob Berman, vp: "It's either in the back of the main first aisle or in the last aisle [the return aisle]. We want the foot traffic, but not as the customer walks in. We want to give customers a little time to settle into the store before coming to a browsing-type department."

Second only to greeting cards in stationery growth is school/home/office supplies.

A broader product mix has raised the space ante. In recent years, Medi Mart, Dallas-based Page Drug, Lane Drug, Birch Super Drug of Massachusetts, Walgreens, Thrifty, Genovese and Kinney have expanded their supply sections. In two new stores opened in March, Genovese went from 44 to 56 ft. for the department, with home/office doubling to 24 ft. Kinney Drug is adding four to eight additional feet to its 24-ft. stationery planogram.

Simply adding footage isn't enough, especially in smaller stores. Lane Drug, which operates stores in the 6,500- to 10,000-sq.-ft. range, has moved from a low of 32 ft. to a high of 60, but has also changed shelving to pitch merchandise toward shopper eye level.

Visibility enhanced

Instead of using flat shelves for items such as paper and notebooks, Lane has improved visibility by using slanted shelves with wire mesh fencing 5 in. high. In the first three changeovers, sales increased 15% the first two months, according to Don Nies, supervisor of stores.

Lane has also gone from horizontal to 4 ft. of vertical pegging for pens, to help consumers find the items quickly.

Not all chains are expanding the department. "Growth stopped three-four years ago," said the buyer for a West Coast superdrug chain, "but we are not standing pat—we are redoing the department by eliminating slow movers and adding new items. For example, a year ago, we carried four year-round diaries. Now we carry one. However, we now carry boxed stationery year-round, instead of seasonally. We are trying to even out the valleys caused by the November-December peak when 70% of boxed stationery is sold."

For many chains, computer accessory sales are as floppy as the discs of the same name. Said a buyer for a major West Coast chain: "Only 5% of people with home computers have printers, so how can you expect to sell paper?"

Notwithstanding the softness of computer accessories, the home/office category, which carries 45% margins overall, is as sound as a 1940 dollar. Some drug chains report seven turns a year, which is on a par with many staple drug store departments.

1985 Stationery department highlights

Chain drug stationery sales	$1,352,026,000
1985 percentage increase	12.7%
Percentage of total chain drug sales	4.8%
Typical gross margins	40% to 45%
Industry profit yield from stationery last year	$540,-$610,000,000
Average no. of annual dept. turns	4.5

1985 Stationery department productivity

	Total sales (add 000)	***% of increase***	***% of sales***
Cards	$462,931	14.2%	34.2%
School, home office	363,790	16.1	26.9
Books & magazines	229,875	10.8	17.0
Writing instruments	93,054	10.0	6.9
Social stationery	63,638	5.6	4.7
Gift wrap	79,961	7.4	5.9
Disposables/party supplies	47,777	8.1	3.5
Art supplies	11,000	9.1	0.8

CARD SHOPPE

Sales from drug store greeting cards departments, like this one at a Wellby unit in Brewer, Maine, grew 14.2% in 1985 to $462.9 million.

PRODUCTS

1985 Tobacco department highlights

Chain drug tobacco sales	$2,127,362,000
1985 percentage increase	7.5%
Percentage of total chain drug sales	7.5%
Typical gross margins	15% to 20%
Industry profit yield from tobacco last year	$320,-$425,000,000
Average no. of annual dept. turns	15

1985 Tobacco department productivity

	Total sales (add 000)	*% of increase*	*% of sales*
Cigarettes	$1,426,368	7.9	67.0
Cigars	339,230	5.8	15.9
Lighters/smoking accessories	181,778	9.1	8.5
Tobacco/tobacco products	153,479	6.3	7.2
Pipes	25,432	4.9	1.2

Price factor crucial; tobacco sales increase 7.5%

Customers' acceptance of generic and price-value cigarettes added life to otherwise depressed drug store cigarette sales, which contributed to a flat tobacco department performance in 1985.

As smokers' consumption and brand loyalty faltered in the face of another round of vendors' price hikes, drug stores benefited from the flight to the lower-priced brands, which increased their share of the domestic $30 billion cigarette market from 5.5% to 7.3%.

Chain drug store tobacco sales hit $2.13 billion, up 7.5% from 1985, fueled by the price hikes on branded cigarettes. But tobacco sales as a percentage of total chain sales slipped from 7.8% to 7.5%.

A shift in consumers' cigarette-buying habits to convenience stores and gasoline stations worked against drug stores, whose share of unit sales dropped from 10% to 9.1% from 1982 to 1984, according to a Brown and Williamson study.

The shift from sales in traditional outlets, including supermarkets, which heavily lost business, according to the vendors' report, forced the industry to refocus on smaller outlets. One result of this was the development of downsized carton racks and more emphasis on retail-level promotions, as opposed to traditional nationwide media campaigns.

Chains posted better margins and more profit dollars from generics such as The Liggett Group's Quality Lights and branded generics such as R. J. Reynolds' Doral, which retailed for $2 to $2.50 below full-price brands per carton. Meanwhile, customers grabbed up price-value brands, notably Brown and Williamson's Richland 25's (which captured 0.5% of the market after only half a year of national distribution), and R. J. Reynolds' Century 25's, adding to sales.

ULTRA LIGHT
SMOOTH TASTE RICH AROMA LOW NICOTINE
IMPORTED FROM SWEDEN

Peoples, Alexandria, Va., carries an extensive mix of cigarettes, tobacco and pipes next to its photo department.

With price a more pronounced factor, customers were less willing to accept many "convenience" 25's, which lacked the discount of the price-value segment, retailers said.

The proliferation of 25's and generics contributed to balloon growth in the number of new brands and styles. In 1985, 46 new cigarette products were introduced, which brought the total number of styles to about 250 and heightened price segmentation.

More styles forced retailers to track movement more closely. At Begley Drugs in Kentucky, where branded generics and full-flavor styles sustained the best growth, some slow-moving lights were cut back to keep the 120 brands and styles sought by 98% of its customers.

Many chains used vendors' single-pack counter displays for the wider 25's, which don't fit into their checkstand racks.

The price segmentation forced some chains to say no to new products. Genovese, for example, only carries 25's priced the same as 20's, to keep the number of cigarette price points down for easier handling by its electronic cash registers.

Buyers said vendors were bearing down with better merchandising offers, and were more willing to coupon.

Philip Morris, for instance, upped payment dollars on single-pack displays, paying $20 to $50 a month, compared with last year's top payment of $35. Drug store buyers said vendors such as RJR and Philip Morris were more anxious to coupon than in past years, using $1 and $2 coupons per carton. "It's a heck of a way to get back those lost sales," said Begley buyer Mike Tipton.

"We can blow through a 180-carton display in a weekend. It sure encourages people to pick up more than one carton," Tipton said of the couponing.

Chains shun cartons

Begley carries cartons on 8-ft. self-service displays in half its stores and on 8-ft. assortments behind the counter in the rest. But other chains avoid cartons because they take more space and provide lower margins than single packs.

However, LaVerdiere's is among chains testing cartons for the first time in six stores, using new downsized displays by Philip Morris. Wellby's, under a major push by its parent, Hannaford Brothers, also adopted the smaller 54-in.-high units—which hold 825 cartons, compared with the typical 1,400-carton capacity of supermarket self-service racks.

Vendors believe they have a story to tell on packs as well as cartons. The industry emphasized cigarettes' profit potential with direct product profitability (DPP) models that showed cigarettes could generate more income than traditional profit and loss formulas have demonstrated.

But the lesson was unconvincing for some chains, such as Fay's, which drastically cut its exposure after a flat sales period by eliminating self-service and checkstand displays.

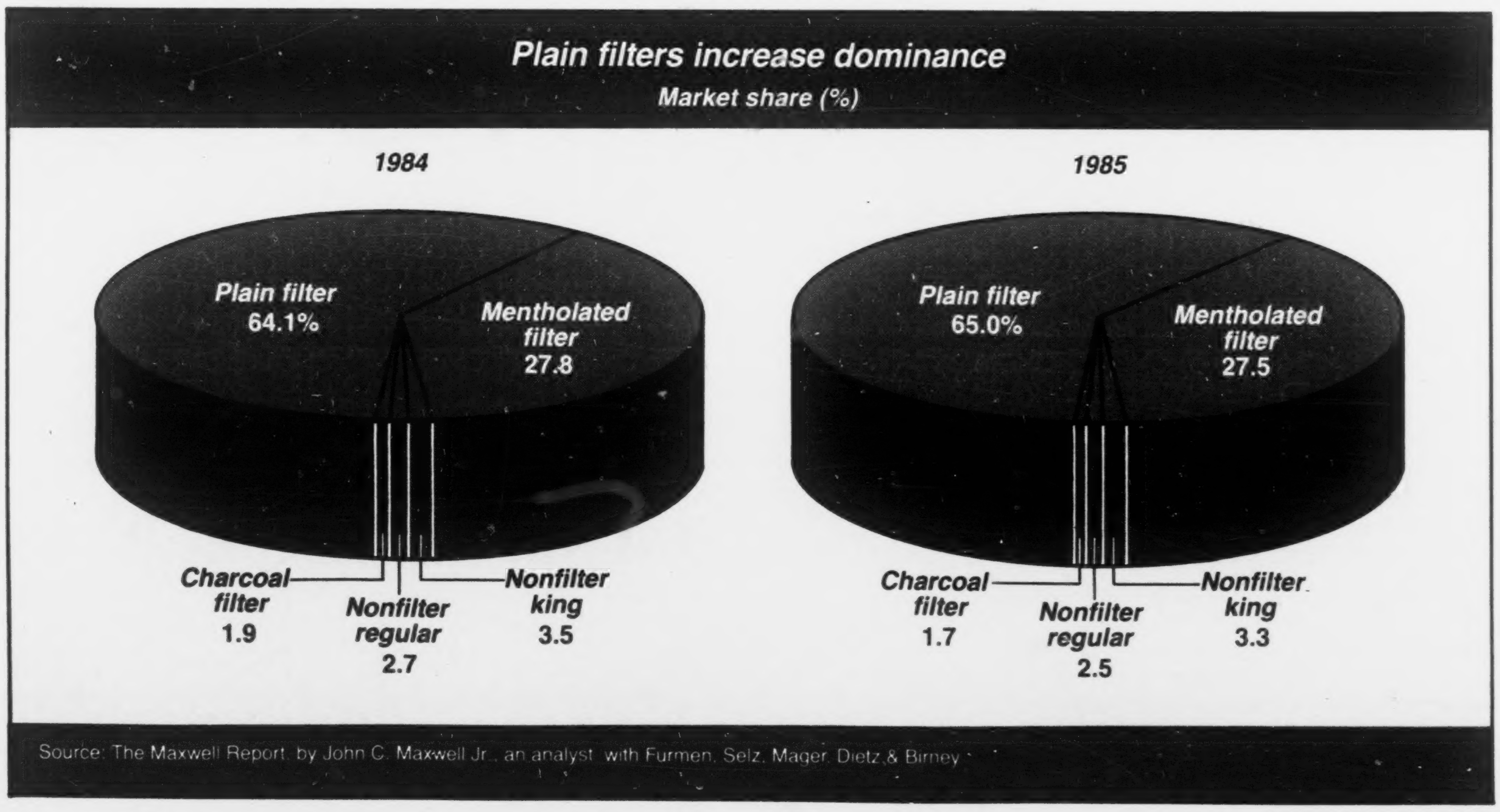
With cigarette unit sales down about 1% in 1985, industry leaders foresaw a continuing decline.

New price segments make inroads

(Percentage of cigarette market in units)

	1981	*1982*	*1983*	*1984*	*1985*
Generic	0.46	0.95	2.92	4.35	4.62
Price value 25's	0.00	0.00	0.36	0.78	1.30
Full price 25's	0.00	0.00	0.00	0.07	0.67
Branded generic	0.00	0.00	0.00	0.38	1.38

Source: Brown and Williamson


Plain filters increase dominance

Market share (%)

Source: The Maxwell Report, by John C. Maxwell Jr., an analyst with Furmen, Selz, Mager, Dietz & Birney

PRODUCTS

Chunky Chunky Chunky

Bar candy sales are up 8.7% while bagged candy sales increased 10.1%. Shown is a Peoples unit in Alexandria, Va.

About 10 Genovese units, like this one in Fort Lee, N.J., are selling candy in cases by the pound—much like a specialty candy store.

Upgraded candy depts. show 9% sales increase

Upgraded candy selections paid off handsomely in 1985 as chain drug stores racked up a 9.1% increase in candy sales over 1984, for a total of $973 million.

Drug chains have always enjoyed success with fast-turning candy items such as gum and bagged goods. But last year, retailers also witnessed a surge in movement of more expensive, boxed candy.

"Many people now give boxed candy as gifts, something that had fallen off in the early 1980's," said one chain drug president.

At Genovese, spokesman Don Gross credited programs like Russell Stover with helping his chain achieve double-digit gains in candy volume. Boxed candy, he added, represents 20% of his overall candy sales. About 10 Genovese units are also selling candy in cases by the pound—much like a specialty candy store.

These moves are all designed to satisfy the needs of today's consumers' sweet tooth. In 1985, says the National Confectioners Association, Americans ate an average of 20 lb. of chocolate per capita. That's up from 18.9 lb. in 1984. Total shipments of confectionery products was up 10.6% to $6.6 million.

Drug chains are filling a niche in candy sales between the "designer" chocolates, such as Godiva, which are sold in department and specialty stores, and the less expensive bagged offerings, by emphasizing brands such as Russell Stover and Whitman's Samplers.

Boxed candy sales were up 9.7% to $192.6 million at drug stores in 1985. Retailers claim they can sell even more boxed brands, and are looking forward to a new line Whitman's plans to debut that will be priced in the $10 range. Tom McNulty, vp-marketing for Whitman's, said the brand will probably be test marketed this fall.

He said drug chains are experiencing candy volume growth because they are promoting candy all year and have extended advertising coverage to all product lines.

Buyers confirmed they are reducing the items bought purely for seasonal events such as Halloween or Easter. Instead, they are buying candy that does not have packaging geared toward a seasonal event, in order to minimize markdowns.

This trend pushed up overall sales of both bar candy and bagged candy. Bar sales are up 8.7% to $290.2 million, outpacing overall bar sales growth of 4.3%. Bagged sales are up 10.1% to $374.4 million.

These items continue to be a leading impulse item in a store, according to POPAI. But even in bar and boxed candy, retailers noted a trend to upgraded items like Swiss chocolates, Nestle's Alpine White with Almonds bars and Cadbury brands. Standard favorites, including Junior Mints, Three Musketeers and M&M's, still command hefty volume, too.

Although chocolate and chocolate-type candies produce 60% of all candy sales, other candy products kept up a brisk pace last year. Chewing gum, for example, is a mainstay at any checkout and now turns about eight times per year, above the category average pegged at about six times per year. As a step back in time, retailers report a resurgence of gum with trading cards. During 1985, one hot trend was gum with cards featuring Garbage Pail Kids, a spoof on Cabbage Patch Kids. Another catalyst in chewing gum volume is the use of NutraSweet.

Chewing gum sales rose 6.1% to $99.1 million, keeping gum's share of category sales at 10.2%. Wrigley and Warner-Lambert remain the leading brands in the field, buyers noted.

1985 Candy department highlights

Chain drug candy sales	$972,975,000
1985 percentage increase	9.1%
Percentage of total chain drug sales	3.5%
Typical gross margins	25% to 30%
Industry profit yield from candy last year	$240,-$290,000,000
Average no. of annual dept. turns	5.5

1985 Candy department productivity

	Total sales (add 000)	% of increase	% of sales
Bagged	$374,403	10.1%	38.5%
Boxed	192,575	9.7	19.8
Bars	290,194	8.7	29.8
Chewing gum	99,066	6.1	10.2
Other	16,737	5.3	1.7

Mamba
Fazzles
assorted Ring Pop LOLLIPOPS
BIG CHUNK

Last year the average American ate 20 lb. of chocolate, according to the National Confectioners Association. Long's in Livermore, Calif., is ready to help assuage that craving.

Although seasonal sales are being downplayed to produce better year-round volume, Easter, Halloween, Valentine's Day and Christmas still pump out big candy volume.

Christmas leads the way, followed by Valentine's Day, Easter and Halloween. Last year, buyers said, was basically free of Halloween candy tampering episodes, suggesting next year will bring Halloween levels back up to where they were before 1980.

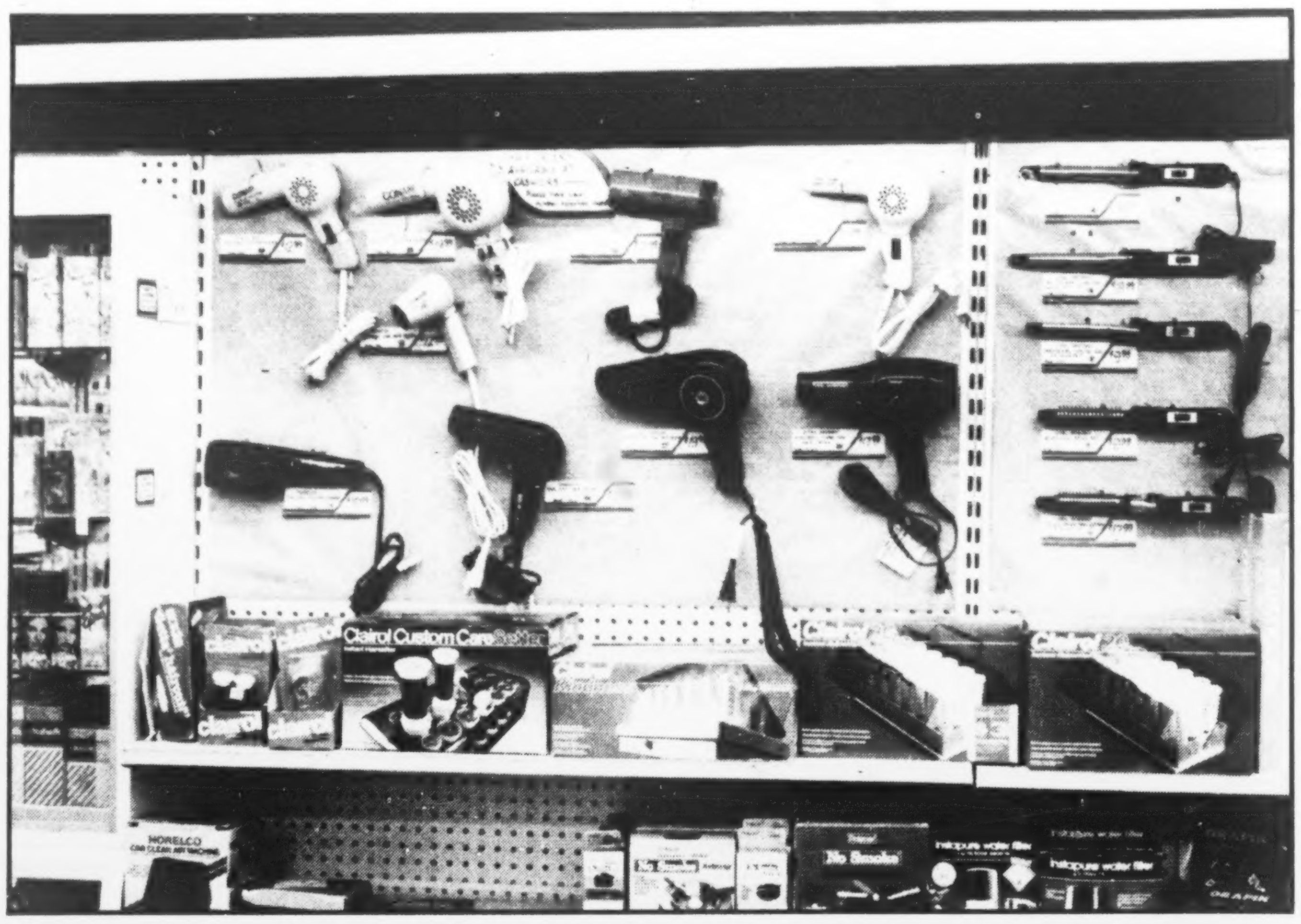
Seasonal volume is being bolstered by the growing consumption of candy by adults. Increased adult purchasing has triggered bigger sales of items such as fruit chews, like Nabisco's Bonkers and Starburst and Granola bars, including Quaker Oats Dip bars.

PRODUCTS

1985 Housewares department productivity

	Total sales (add 000)	% of increase	% of sales
Plastic and rubber housewares	$386,982	6.1%	20.3%
*Personal care**	225,870	3.8	11.9
Household supplies	218,081	3.0	11.5
Small electrics	189,104	1.2	9.9
Glass/dishware/cookware	190,255	8.4	10.0
Paper products	145,176	5.6	7.6
House & kitcken gadgets/gourmet	112,412	6.3	5.9
Lighting products	90,288	7.5	4.7
Picture frames/mirrors	69,714	6.0	3.7
Insecticides	59,406	3.1	3.1
Furniture/outdoor furniture	51,931	4.7	2.7
Plant/plant care	46,354	2.0	2.4
Bath/closet	35,111	7.6	1.8
Miscellaneous	81,689	3.9	4.3

*Shifted from general merchandise department



A new safety regulation requiring hair blowers to shut off automatically if they contact water may cause prices to rise this fall. Shown is a display at a Peoples unit in Montgomery County, Md.

Drug chains cherrypick hot housewares items

1985 Housewares department highlights

Chain drug housewares sales	$1,902,373,000
1985 percentage increase	4.4%
Percentage of total chain drug sales	6.7%
Typical gross margins	35% to 45%
Industry profit yield from housewares last year	$665,-$850,000,000
Average no. of annual dept. turns	3

Perry Drug's Pontiac, Mich., store features flatware, bowls and plastic food savers at low prices during a Dollar Days promotion.

Housewares showed the second slowest growth among all drug store merchandise categories in 1985.

Sales rose just 4.4% to $1.7 billion, as chains began to cut back electric appliance sku's, saw continued price erosion in personal care and largely opted for promotions over continuity programs in higher-ticket tabletop, microwave, electronic home health devices, knockdown (KD) furniture and closet accessories segments.

These popular segments behaved better at other classes of trade, such as discount department stores, specialty shops and warehouse clubs. But drug store merchants cite space constraints and lack of a strong housewares image that would lure customers as reasons why they mostly cherrypick hot items rather than develop permanent programs.

Still, there are success stories in housewares, which accounted for 6% of drug chain sales last year. That's second in contribution only to tobacco, following the core drug store categories of Rx, OTC and toiletries.

For instance, Perry Drug, which devotes an unusually large amount of space to seasonal, sells a broad variety of KD furniture from these aisles during January-March and July-October periods. Assortments tie into the growth of home offices and audio/video systems and include computer desks and chairs, microwave and VCR carts, room dividers and library units.

Thrift, Eckerd, Revco and Community Distributors are among drug chains making inroads into closet and storage accessories, according to industry sources. Just in patterned cardboard boxes alone, Thrift devotes 12-16 ft. every day, and Community 16 ft. Eckerd promotes regularly. Revco recently sold 70,000 storage chests at 97¢ retail during a six-week chainwide promotion, helped by a 50¢ manufacturer rebate to consumers.

Genovese, Fay's and Bonanza Stores consider microwave cookware to be viable drug store items, both in single pieces and sets. Genovese, for instance, is developing a 4- or 8-ft. planogram for microwave cookware that would include primarily single pieces year-round but also sets during Christmas season.

The chain plans to carry Litton because of its strong association with ovens, plus Anchor Hocking as a step-up line, and possibly Rubbermaid. Genovese also plans to promote a subcompact Emerson microwave oven at less than $100 for Mother's Day and Christmas. "It's an item business, but we can still cross-merchandise," said Owen Rees, assistant vp-purchasing.

Indeed, cookware/dishware/glass sales rose 8.5% in 1985 to $190 million, the largest housewares segment gain, which reflected incremental sales of microwave accessories.

Lighting is another segment that grew handily last year, up 7.5% to $90 million. That reflects efforts by chains such as Walgreens and Osco to sell more high-margin lighting accessories as part of expanded 12- to 16-ft. electrical centers, according to an industry source. These sections can produce volume equal to 20%-25% of a store's light bulb sales, but at 60% margins.

Another positive trend rests in home health care devices such as blood pressure monitors and digital thermometers, which trade sources estimate are sold in about 30% of the nation's drug stores.

Prices stabilized

"Prices appear to have finally stabilized," said an executive at one major manufacturer, referring to 30% annual price declines over the past two years. He agreed with others who cited increased consumer demand for step-up electronic models in the $60-$80 retail range because "people spend where their health is concerned."

However, drug stores have hesitated to merchandise these items away from pharmacy, where usage questions can be answered more easily. Drug store buyers continue to limit their exposure in this category, often selling just one or two sku's, because inventory investment gets relatively high.

That's the same concern keeping many drug chains away from microwave ovens at $85-$100, even though their growth curve is strong in most parts of the country. Buyers said low margins make oven merchandising tantamount to "trading dollars." However, another merchant punned, "You have to sell a lot of toothpaste to make that same $10 to $20 profit."

The bright spot in personal care last year was fashion-colored appliances from Conair, Clairol, Candie's and others. When Conair blister-packed neons helped kick mini-turbo prices up to $12.99, retailers were taking 30%-35% margins. But by last Christmas, even these were being discounted as low as $9.99 at the same low margin that's plagued this merchandise segment in recent years.

Colors are still effective marketing tools, and pastels have been introduced this year to keep the colored segment from maturing.

However, the nature of personal care could change rapidly in 1986 and 1987, as the Underwriters Laboratories' October 1987 deadline draws near for hair blowers to shut off automatically when they contact water. Sunbeam and Conair have already introduced such "safety" models, which will be available this fall.

Most trade observers view the regulations to protect against consumer misuse as a perfect excuse to raise personal care price points and margins and bring the category out from under the rebate umbrella.

Buyers said the housewares items they'll concentrate on in 1986 will include downsized food processors, ultrasonic humidifiers, newer grooming aids such as beard trimmers and bikini shavers, generic nonstick cookware, food storage containers, closet accessories, personal care, microwave accessories and KD furniture.

PRODUCTS

Drug store toy sales up 4.4% in '85 to $700M

Last year didn't yield a single toy as hot as Cabbage Patch or a board game that performed as dynamically as Trivial Pursuit. But chain drug store operators were pleased with the 4.4% sales gain they managed to produce in the toy category during 1985.

"When you take into account we did over $1 million in Trivial Pursuit alone in 1984, you realize any gains in 1985 are respectable," said Don Gross, vp-marketing at Genovese.

Chain drug store toy volume was indeed respectable last year, amounting to just over $700 million. But since there was not an item to rival Cabbage Patch, toys, as a per cent of overall drug chain sales, dropped slightly from 2.6% last year to 2.5%.

Sales growth in drug chains was slightly below the industry growth rate of 8%, according to the Toy Manufacturers of America. Total toy sales, the association reported, hit $12 billion last year.

Although sales growth slowed in 1985, it was a year drug chains proved to be outlets capable of selling higher-priced toys. When Worlds of Wonder's talking Teddy Ruxpin grabbed the hearts of consumers, drug chains were there to snap up supplies of the plush bear. Genovese, for example, sold-through on Teddy Ruxpin at a price point of $70.

The beauty of carrying items like Teddy Ruxpin, added another chain executive, is that drug chains had a supply long after other outlets were out of stock. "That meant customers who came in for Teddy spent more money with us on Christmas gifts," he added.

For those who thought $70 was a bit steep, there was another hot plush item: Kenner's Pound Puppies, priced at about $15. The success of Pound Puppies helped push plush sales up to almost $600 million last year. Drug chains amassed sales of $56 million, up 7.1% over 1984.

There are more plush entries for 1986. Joining Pound Puppies will be Pound Purries, Fluppy Dogs, Popples, Wrinkles and Kissyfur. There will be Kennel Kittens, Strays and a host of other "adoptable" plush animals. But buyers warn of an overload. "How many plush dogs or cats should we carry . . . I don't need three different brands," a buyer laments.

Sales of board games advanced just 2.4% to $121.6 million during 1985. Trivial Pursuit was still strong for some retailers, while others had praise for Scruples, a game that tests the morals of players. Walgreens even devoted a whole store front window to Scruples.

Scruples, however, is already giving way to what buyers say will be the hot game of 1986, Out of Context. "We're planning that to be big for Father's Day," reports Gross.

Action figures still run up big sales in drug stores, particularly because of reasonable price points and high-impulse peg displays. Overall action figure sales jumped 26% last year, said the TMA. Drug stores got a good share of that increase, with sales up 7.8% to $105.5 million. Masters of the Universe was still voted as the best mover, although LJN's Wrestlers also received some mention. Mattel's She-Ra, the girls' answer to He-Man, also performed well last year and invited several imitators.

But when it comes to toys for girls, retailers said there is no stopping the 28-year-old Barbie. Barbie led doll sales, which rose 5.7% to $56.1 million in 1985.

Other important peggable toys, besides action figures, are those that transform from vehicles to robots. But volume has been eroded by a flood of inferior goods. Unfazed, manufacturers of transformable toys are bringing the concept to other toy areas. Mattel, for instance, is offering Double Dooz characters and playsets, which are animals characters with interchangeable Velcro parts. Kenner has Centurions as a fighting team that can change into Superheroes with Power Xtreme weapon packs.

To make room for more board games and action figures, drug retailers axed hobby and craft sku's last year. Growth in that category was flat, with sales reaching $41.6 million at drug chains in 1985.

Toys sales are generated mostly by discount stores, with 31% of total dollar volume, according to NPD Group. Toy stores produce 22% of sales; department stores, 15%; catalog showrooms, 7%; and variety units, 5%. Drug stores and supermarkets fall into the all-others class, with drug units estimated to produce 5% of overall sales. But the chain drug stores' market share is expected to increase in the years to come, as vendors—realizing the impact of one-stop shopping—work more closely with food and drug outlets to produce better toy programs.

1985 Toy department highlights

Chain drug toy sales	$701,280,000
1985 percentage increase	4.4%
Percentage of total chain drug sales	2.5%
Typical gross margins	35% to 40%
Industry profit yield from toys last year	$245,-$280,000,000
Average no. of annual dept. turns	2.6

Wellby, Brewer, Maine, carries a large assortment of board games. Trivial Pursuit was still a strong seller in 1985 for some retailers, while others praised Scruples.

1985 Toy department productivity

	Total sales (add 000)	% of increase	% of sales
Games	$121,653	2.4%	17.4%
Pegged toys	105,530	7.8	15.1
Cars	91,588	3.1	13.0
Boxed toys	86,534	4.4	12.3
Preschool	66,484	6.0	9.5
Plush	56,172	7.1	8.0
Dolls	56,140	5.7	8.0
Hobbies	41,637	1.5	5.9
Miscellaneous/seasonal	75,543	2.2	10.8

Trivial Pursuit and Cabbage Patch Kids made 1984 a dynamic year for toy sales. Despite the debut of a similar hot seller in 1985, drug store operators still generated a 4.4% sales gain in 1985 for the toy category.

PRODUCTS

1985 Photo department productivity

	Total sales (add 000)	% of increase	% of dept. sales
Film	$463,635	9.5%	37.5%
Still color	265,516	14.7	21.5
Instant picture	182,537	2.9	14.8
Movie color	10,921	2.2	0.9
Still B&W	4,661	6.1	0.4
Processing	403,597	15.9	32.6
Flashbulbs/flash attachments	190,031	3.1	15.4
Cameras	122,060	11.5	9.9
Blank/prerecorded video cassettes	56,106	17.3	4.5

1985 Photo department highlights

Chain drug photo sales	$1,235,429,000
1985 percentage increase	10.9%
Percentage of total chain drug sales	4.4%
Typical gross margins	20% to 25%
Industry profit yield from photo last year	$245,-$310,000,000
Average no. of annual dept. turns	9

Drug photo sales up 10% as shutterbugs trade up

The photo department has been making a better impression on drug store retailers.

The tandem growth of 35mm autofocus cameras in the $90-$150 retail range and improved color print films has opened up a higher end of photography to a broader marketplace.

People saying cheese today more than ever are doing it for 35mm photographers, who've decided to step up from 126, 110, disc and instant formats to larger negative cameras that are mostly automatic.

This has had a positive impact on sales of cameras, film and photofinishing services. In 1985, the photo department grew 10.9% overall to $1.24 billion. That represents 4.4% of drug chain sales, matching its contribution of a year ago.

The most dramatic gains were in photo processing, despite the preponderance of freestanding and outside retail competition. Photofinishing grew 15.9% to $404 million at drug chains last year, accounting for barely less than one-third of total photo business.

Growth of still color film nearly matched that pace, rising 14.7% to $265 million last year. This film format, which includes a wide variety of popular 35mm films for Kodak and Fuji, increased its dominance among all film sales in 1985. It accounted for more than 60% of all film sold at drug chains, up from 55% a year earlier.

Instant films grew just 2.9% to $183 million, but remain the second most popular film.

Drug chain merchants expect the importance of instant to diminish, particularly with Kodak out of the picture since earlier this year. While saying Polaroid would hold up its end with new product introduction, some felt the Kodak name added extra credibility to the format. Chains estimated that Kodak accounted for 30% of their instant business.

Earlier in 1986, Kodak announced its first 35mm entry in 16 years, to tap the growing autofocus trend. A competing source in this format told *Drug Store News* he thought Kodak's presence would help the segment grow by 10% in units annually.

The popularity of established autofocus brands—such as Canon, Minolta, Nikon, Olympus, Pentax, Yashica and Ricoh—is reflected in camera sales growth at drug chains. Camera sales grew 11.5% last year to $122 million, accounting for nearly 10% of department sales.

Another support leg has emerged strongly in the department: blank and prerecorded videocassettes, which, in their relative infancy, have grown 17.3% to $56 million last year, about 4.5% of total photo sales.

PHOTO
maxell

Photofinishing grew 15.9% to $404 million at drug chains last year, accounting for almost one-third of the total photo business.

Market for video tapes seems hot

Estimate reports that Americans rented 675 million during 1985

The market for blank and prerecorded tapes appears to have no end in sight, given the pace of household penetration by videocassette recorders. The only question is: How much of the business can drug stores capture?

Plenty, its seems, even at their estimated market share of nearly 10%, because demand for tapes continues to surge, and there'll probably be a shakeout among video specialty stores.

Indeed, a new study by the Electronic Industries Association (EIA) consumer electronics group indicates that VCR's are in one of every three American households, but that 41% of nonowners intend to buy a unit this year.

To give an idea of what that means to blank tape sales, 3M, maker of Scotch, predicted that people who bought a VCR in 1985 would buy six blank tapes in 1986, five in 1987, and four each in 1988, 1989 and 1990.

Drug chains have increasingly set up front-ended pegged displays to sell name brands such as Kodak, Fuji, Scotch, JVC, Maxell, Memorex, BASF, TDK, Polaroid and Sony at $4.99-$8.99. They augment margins by selling costlier head cleaners, storage cabinets and dust covers.

Sales of prerecorded tapes haven't been nearly as bright because of typical $60-$90 price tags in the market and consumer preferences to rent. That appears to be changing, however.

Paramount, for example, dropped some popular titles to the $25 range last Christmas, skirting drug stores' upper bounds. Public domain offerings have broadened and 1986 prices in the $7-$10 range are creating that opportunity for impulse sales.

More children's, sports highlights and instructional tapes from sources such as Prism, Kids Klassics and Golden Book Video are bringing extended variety to drug store racks at retails typically less than $10.

However, rentals far outpace sales of prerecorded tapes. Drug stores have gone after this business by usually renting at competitive market rates, $1-$3 per night, and imposing no membership fees.

Americans were expected to rent 674 million films during 1985, up from 390 million a year earlier and just 20 million in 1980, according to *Video Marketing Newletter*, a trade publication.

Rite Aid has been the most aggressive drug chain, expanding its rental program to more than 600 stores by now, with plans to go chainwide by the middle of 1987.

It invested $20 million in 1985 to roll out its program and stock each renting store with 1,050 titles covering all movie industry ratings. Rite Aid is eying a strong position once the independent video store shakeout reaches full bloom by 1990. It may have its hands full battling a full-fledged commitment by Southland's 7-11 network.

The EIA study showed further that:

- Of VCR owners, 95% said they'd replace their VCR's if necessary.
- First-time purchasers accounted for 83% of VCR's sold in 1985.
- The average retail price of a VCR fell to $420 in 1985 from $728 in 1981.
- VCR owners report using the units an average 9.3 hours a week to play cassettes and 6.1 hours to record.
- VCR owners are likely to have larger households, higher incomes and be younger than nonowners.
- The VHS market share has risen steadily to 90% in 1985 from 71% in 1980.

PRODUCTS

Funky 'shades,' jewelry brighten year's gm sales

High margins spur push for year-round play

General merchandise/sundry sales rose 5.9% last year to $1.2 billion, as consumers turned increasingly to drug outlets to buy items such as sunglasses, watches and jewelry.

The moment "Miami Vice" star Don Johnson or Madonna donned sunglasses, drug store retailers saw sales soar. Funky sunglass frames, including cateye styles, Yoko Ono shields and Risky Business wayfarers, led an 8.1% sales gain in sunglass volume last year to $187.7 million.

Drug store buyers admitted they're more willing then ever to take a chance on stylish frames, despite the risk of markdowns as fashions change.

Color was also important in shades last year, with tortoiseshells and vibrant colors like fuchsia and purple flying off spinner racks.

More than $1 billion in sunglasses moved through all outlets last year, according to the Sunglass Association of America. The average price of a pair in 1985 was $6.43—a price point that fits nicely into the drug store mix. The trade group said drug stores sold more than 21 million pairs in 1985, meaning drug outlets accounted for 13% of all glasses moved.

Drug stores also sold more watches and jewelry last year, as consumers discovered upgraded selections and more fashion at the local drug counter. Colorful watches inspired by Swatch designs sold well last year. Lower-priced versions of these plastic watches led a 6% category sales gain to $103.3 million. Of particular interest to buyers was the new Timex Watercolors line priced at $24.95 and Armitron's Awatch.

Brightly colored costume jewelry was another traffic stopper in the nation's chain drug stores.

Buyers were impressed with the speed at which jewelry suppliers knocked off department store styles in 1985. Coordinated earring and necklace sets also ignited sales. Buyers noted that jewelry companies worked harder than ever in 1985 to devise good programs. Retailers, in turn, devoted extra spinner racks to jewelry and promoted the category harder.

The beauty of sunglasses, watches and jewelry, buyers added, is attractive gross margins. In sunglasses, for example, margins soar as high as 50%. Jewelry produces margins in the 40% range.

No wonder, then, that retailers are working to make these categories year-round sellers, rather than seasonal performers.

Electronic items moved

Drug outlets are not where a customer usually thinks of buying a consumer electronic item. But aggressive buying and promoting helped consumer electronic sales rise 5.4% to $94.8 million in chain drug outlets. Buyers report selling a great deal of the Conair High Energy phone in pegged card displays, as a home fashion extension of their popular hair blowers. Drug stores also sold their share of boom boxes, personal stereos and even microwaves at nearly $100. A handful of retailers—such as Pay Less, Page and Pay 'n Save—took advantage of falling videocassette recorder prices to promote them in the $150-$200 range. Whether chains sold VCR's, most moved a great deal of blank tapes.

Many consumer electronic items require batteries—in fact, many toys, clocks, cameras and other gadgets gobble up batteries. Chain drug stores sold a hefty $156.3 million in batteries.

Not surprisingly, batteries rank as one of the top five checkstand items. Few shoppers can walk past a checkout without noticing batteries and often remembering they need some. In unit movement, according to the *Drug Store News* Triple A Study, the Duracell D-2 battery is the fastest-moving sku, followed by Duracell AA-4, Eveready Energizer AA-4 and the Eveready Energizer D-2.

For those retailers who carry sporting goods, sales were up a modest 5.8%. Sporting goods, said a Perry Drug Stores merchant, move best in stores serving recreational areas. Perry, in fact, sells fishing gear and even boats in several of its resort-area stores.

Pet needs a growth area

Pet needs is another growth area for drug stores. Sales were up 7.5% last year to $154 million, as more and more Americans decided to adopt a pet. Drug store mix, however, is strictly food, litter and toys. Chains do not want to sell live pets.

Finally, the gm/sundry category enjoyed a healthy 7.1% gain in pantyhose sales to $203 million. Although supermarkets command the biggest portion of this business, drug chains have netted a nice piece of the pantyhose business. Most drug chains said they are now carrying at least three major pantyhose brands, including a private label hose.

General merchandise 1985 productivity*

Category	Total sales (add 000)	% of increase	% of dept. sales
Sunglasses	$187,697	8.1	15.8
Pet needs	153,949	7.5	12.9
Sporting goods	134,107	5.8	11.3
Pantyhose/soft goods	202,777	7.1	17.0
Watches/bands	103,334	6.0	8.7
Home electronics	94,775	5.4	8.0
Batteries	156,317	6.8	13.1
Yarn/sewing notions	74,679	1.3	6.3
Vaporizers/humidifiers	19,707	4.2	1.7
Giftware	26,305	2.1	2.2
All others	36,031	4.2	3.0

*Category base changed to reflect shift of personal care to housewares category

1985 General merchandise department highlights

Chain drug general merchandise sales	$1,189,678,000
1985 percentage increase	5.9%
Percentage of total chain drug sales	4.2%
Typical gross margins	35% to 45%
Industry profit yield from general merchandise last year	$415,-$535,000,000
Average no. of annual dept. turns	5.2

VIDEO CENTER

Most drug stores sold a large quantity of blank tapes, while some took advantage of falling videocassette recorder prices to offer them in the $150-$200 range.

Funky sunglass frames, inspired by Yoko Ono, Madonna and Don Johnson "looks," sparked an 8.1% sales gain in sunglass volume.

PRODUCTS

DIY drug store shopper just seeks convenience

Chain drug store do-it-yourself departments, with auto parts and accessories leading the way, provided high-margin sales from customers looking for convenience or making impulse buys.

Although drug stores' involvement continues to be limited in departments such as hardware, paint and supplies and electrical items, the category sparked profits and traffic from customers who in most cases have already made their big-ticket DIY purchases at mass merchants and specialty outlets.

Chain stores reported steady sales from auto parts and accessories, with their drug store merchandising in some cases enhanced through the lessons they have learned from running separate auto parts chains, such as Rite Aid's ADAP chain, Perry Drug's Auto Works units and Fay's Wheels.

But total DIY sales grew a meager 1.04% from 1984 to 1985 to $424.5 million, the least growth among all categories at drug chains. It also continued to be the smallest category, accounting for 1.5% of sales.

"We're not at the point where we can compete head-on with these specialty stores," said Lance Clark, Snyder's Drug's merchandising manager, in reference to Snyder's electrical and hardware departments.

To assist customers who often lack technical sophistication, Snyder's is replanograming an 8-ft. electrical department to create a simplified selection, with a coordinated look in packaging and display.

The stronger presentation will include fewer vendors in products such as electrical outlets, switch plates, extension cords, fuses and light bulbs. Packaging will be more consistent to help denote the department's location. It will also create a less confusing assortment, to "simplify the purchase decision for the customer. She is not an electrical contractor," said Clark.

The readjusted presentation will include phone accessories, lifted from behind the counter, as customers are less dependent on sales help in making those purchases today, Clark said.

Taking advantage of the electrical segment's high margins, Walgreens is planning to set up in some stores a 12-ft. electrical center to augment light bulb sales, including telephone accessories, dimmers, wall switches, switch plate outlets, wiring aids and screw taps, according to an industry source. Margins can reach 60% when a chain buys direct, as Walgreens plans to do, the source said.

Osco is another chain reportedly establishing an electrical department, in which sales would typically equal 20% to 25% of a store's light bulb volume.

Needs monitoring

While chains such as Snyder's achieve category growth in the electrical segments, most are hard-pressed to generate high sales growth as they monitor inventory and weed out slow-performing items. "DIY has to be very carefully managed in a drug store," noted Dan Herrmann, Fay's Drug president and coo. "At times, the assortment has to be confined, or you'll never turn it," said Herrmann, whose stores display 64-ft. sections for hardware and paint supplies.

Fay's emphasizes promotions that parallel the building and repair seasons as well as holidays, such as Father's Day.

But the upstate New York chain will maintain a somewhat leaner inventory and avoid higher-risk items, after slightly below-par 1985 sales, says Herrmann.

Largely through a process of trial and error, Perry Drugs has fine-tuned departments in hardware, plumbing and paint supplies into profitable high-turn segments with 40% to 50% margins, said a chain executive.

Perry discovered the profit potential of accessories in each category after experimenting with broader offerings, which still couldn't compete with specialty retailers, according to David Peterson, vp-corporate merchandising.

After phasing out paint, high-ticket tools and large plumbing fixtures, Perry was left with accessory assortments that are in steady demand from weekend amateurs who make their big buys at mass merchants and building supply outlets, but "forget to buy their accessories," he said.

Home repair items move

Drug stores benefited from the largest annual increase ever recorded for spending on residential alterations and repairs. The $80 billion spent in 1985 was a 14.6% increase from 1984, according to the National Association of Home Builders.

Growth should level off this year at 5%-7%, with about 25% of all remodeling expenditures attributed to the do-it-yourselfers, the NAHB projected.

Eckerd presents a wide assortment of car wax, which it emphasizes along with cleaners in key shelf positions. Impulse cleaning cloths and car air fresheners are pegged overhead in its Dallas store.

Customers are lured to the auto accessories area in a Wellby in Portland, Me., discounted oil, to expose them to high-margin pegged impulse items including reflectors, decals and dashboard accessories.

Drug stores are also taking advantage of a growing automotive aftermarket. The number of drug stores carrying auto parts grew 12% between 1980 and 1983, according to the Automotive Parts and Accessories Association.

Drug stores thus outstripped growth of tire stores, service stations, new car dealers and department stores in this regard, which each posted a decline in the percentage of its stores retailing automotive products, the APAA said.

Opportunity seen

Jack Robinson, Perry Drugs chairman, recently forecast continued opportunity as the "graying of the U.S. car market" continues. The average U.S. car is 7.5 years old today, compared with 6.5 years in 1980, and the population of cars in the prime repair group should expand 5% a year through 1989, Robinson said.

Anticipating steady growth, Perry has developed three new prototype merchandising configurations for its 5,000-sq.-ft. auto centers in its drug stores. The new look will include a second service counter at the stores' rear to ease customer-clerk interchange. The chain will add higher gross profit and impulse sale items. "We are looking to place more emphasis on service in a better merchandising configuration," said Peterson.

1985 Do-it-yourself department highlights

Chain drug Do-it-yourself sales	$424,501,000
1985 percentage increase	1.0%
Percentage of total chain drug sales	1.5%
Typical gross margins	35% to 45%
Industry profit yield from Do-it-yourself last year	$150,-$190,000,000
Average no. of annual dept. turns	3

1985 Do-it-yourself department productivity

	Total sales (add 000)	***% of increase***	***% of sales***
Hardware	$188,561	0.1%	44.4%
Automotive	173,254	2.3	40.8
Paint/paint supplies	62,686	0.5	14.8

PRODUCTS

Cookie and snack sales hit $95 million in 1985, up 6.6%. Soft-batch cookies were a victim of brand overload, however. Sentry Drug, Westland, Mich., has a large mix of both cookies and snacks.

Although coolers were a bright spot in 1985, stiff drunken driving laws and consumers' health concerns adversely affected sales of alcoholic beverages. Shown is a K & B unit in New Orleans.

Quick-pickup items prevail in food/liquor

Drug stores are still crunching big numbers in snacks and liquor. But retailers note that sales are quieting as consumers turn to other outlets such as convenience stores for their needs.

The early 1980's move toward mini-food combos is now being downplayed by drug chains, who'd rather stress basic drug store departments. The food and liquor mix is being fine-tuned to include only the fastest turning, quick-pickup goods.

Snacks and wine coolers led a 6% jump in sales in 1985 over 1984. These popular items helped drug chains ring up $1.3 billion in liquor and snack sales last year, roughly 4.5% of all drug chain volume.

Last year became the year drug retailers committed to wine coolers. "We were cautious at first," said Tom Robertson, buyer at Perry Drug Stores, "because we thought it could be a fad. Now we know it is here to stay."

What's more, said buyers, cooler sales are strong year-round, not just in summer months. Total cooler volume is now pegged at $800 million, up from a zero base only four years ago. Industry observers predict 48 million cases of coolers will be sold in 1986.

Drug chains are carving space out of wine departments to give coolers a deserved home. The top four brands get the best space: California Coolers, Sun Country, Bartles & Jaymes and Seagram. As with any hot category, an overload of sku's is causing a shakeout. Early victims were Schenley's and Adolph Coor's offerings. Also, buyers warn of an overload of flavors, with a crop of new peach, cherry and tropical brands.

"It is a case of first come, first make money," explained one executive.

Coolers were about the only bright spot in liquor/wine/beer sales last year. Stiff drunken driving laws and the consumers' concern over health dampened alcoholic beverage sales.

In fact, without cooler volume, wine unit movement would have risen only 2%-3%. Within the wine department, buyers noted a shift toward blush wines including Zinfandels and Cabernets.

Imported beers still generate some excitement, with the latest trend appearing to be toward Mexican brews.

Overall, the liquor/wine category produced a 6.3% sales increase in chains last year to $604.5 million. Beer volume swelled 4.2% over 1984 to $81.5 million.

No recap of last year would be complete without mention of the now famous relaunch of Coke. The New Coke debut caused havoc on retailers' shelves, and the relaunch of Coke Classic was another nightmare, according to buyers. Things have calmed now, buyers added, citing the victims in the space war as nondiet, caffeine-free entries. Even all the attention to soft drinks did not push volume any higher than 7.7% last year, to $185.1 million.

The biggest splash, buyers added, is coming from the new soda pop drinks with real juice. Slice and Sunkist kicked off the trend, and they will be joined on the shelves by Seven-Up's new Citrus 7, Coca-Cola's Minute Maid and a juice version of Crush.

Stroh's also has a juice-based entry planned, called Sundance. It is no surprise companies are flocking to juice-based drinks, as PepsiCo's Slice rapidly captured an impressive 2.2% share of the $30 billion soft-drink market in less than two years with only 80% distribution.

Buyers said there is little brand loyalty in soda today, with customers buying whatever is on deal. There has been a move, however, toward two-liter and can packages. The huge three-liter bottle "never made" it, buyers noted.

Nut volume rose 5.3% to $103.6 million in chain drug outlets last year. Chains now stock as much as 8 ft. of nut selections, led by the popular Planters line. Many are looking forward to Eagle Snacks, although some feel the distribution setup may have too many middlemen to make a good profit.

Consumer tastes, buyers say, are getting more adventurous, with people buying more honey-roasted and macadamia nuts.

Cookie and snack sales hit $95 million, up 6.6%. The soft-batch cookies did not produce the anticipated volume—another victim of a brand overload. Nabisco remains a mainstay of any snack department. A winner last year was the company's new Apple & Cherry Newtons.

Ethnic flavoring received a favorable nod from consumers last year, and Frito-Lay plans to capitalize on that move with its new O'Grady's "The Works" chips, as well as Frito's Chili Cheese flavor and Lay's Jalapeno and Cheddar chips.

Canned goods/condiment volume was flat—up only 4% to $57.3 million—as customers turned to local food retailers for these needs. Dry grocery sales inched up 3.5% to $49.5 million.

With the exception of a few chains such as Walgreens, the consensus is that drug store shoppers want to get in and out fast and will not buy too many grocery items.

The key is to have small sizes or even trial sizes of grocery items, which may be picked up on impulse or as a convenience, buyers said.

"We find we do best with pickup items such as a 4-oz. Planters nuts or a crunch," said Robertson. "We also sell a great deal of single-can soda. It's a good walk-in business."

For 1986, retailers said they will be more judicious in their choice of locations for mini-food sections. "Where there is not a local food store, we might put food in," explained one source. "But in the meantime, we're condensing our prototype and getting back to the good old pharmacy fare—prescriptions, health & beauty aids and cosmetics."

1985 Food/liquor department highlights

Chain drug food/liquor sales	$1,280,230,000
1985 percentage increase	5.9%
Percentage of total chain drug sales	4.5%
Typical gross margins	15% to 20%
Industry profit yield from food/liquor last year	$190,-$255,000,000
Average no. of annual dept. turns	12

1985 Food/liquor department productivity

	Total sales (add 000)	***% of increase***	***% of dept. sales***
Liquor/wine	$604,496	6.3%	47.2%
Soft Drinks	185,145	7.7	14.5
Nuts	103,563	5.3	8.1
Snacks/cookies	95,020	6.6	7.4
Beer	81,476	4.2	6.4
Canned goods/condiments	57,293	4.0	4.5
Dry groceries	49,464	3.5	3.9
Other foods	103,773	5.2	8.1

PRODUCTS

Ethnic H&BA products' sales rise 12.5% in 1985

Now black male shoppers can often find hair care items designed especially for them, such as the wave kit shown in this Peoples store.

Ethnic health & beauty aids products had a strong year in chain drug stores in 1985.

Nothing particularly dramatic happened to the category in terms of new products or dramatic fashion trends. Yet consumers continued to patronize the category regularly and faithfully, manufacturers kept on advertising their brands aggressively, and retailers continued to reinforce their overall commitment to the catgory with more promotions and better space allocations.

As a result, total category sales for the year were up 12.5% to $200.8 million, while the category racked up about 6.6% of all chain drug toiletry sales.

Hair care is the dominant segment in this category, accounting for approximately 90% of all sales. A. C. Nielsen, which also tracks the sale of ethnic hair care preps (excluding hair color) on the retail level, estimates that total sales for ethnic hair care were up 12% in all drug stores in 1985, while they were down 12% in mass merchandise stores and only up 2% in food store outlets.

In addition to ethnic hair care, which is a billion-dollar-plus category at retail, ethnic H&BA includes cosmetics, shaving needs, skin care and hosiery. Exact dollar sales for all ethnic health & beauty aids are hard to come by, because market researchers find it difficult to isolate the percentage of sales in cosmetics, hair color, hosiery and shaving that are for products exclusively designed for black shoppers, but rough estimates for the total category in 1985 ranged from $1.2 billion to $1.3 billion.

By virtue of hair care's sheer dominance in the category, most of the growth in this segment naturally was coming from hair care lines—in particular relaxers, moisturizers, conditioners, gels and pomades.

The curl kits, which created a revolution in the category in the early 1980's, generating growth then of 50%-70%, have peaked, and although sources reported this category segment is still yielding decent growth rates of between 10% and 15% in dollar sales, it is nothing like it had been.

In a fashion sense, nothing like the curl kits has emerged in this category to maintain the dramatic growth trends of the early 1980's. Instead, the pendulum has swung back to shorter and more natural hair styles for both men and women. The segments benefiting from this new trend are (a) the relaxer kits, (b) the sprays that put a sheen in their hair (c) the gels that make it more manageable, and, oddly enough, (d) the curl activators and moisturizers. tHe latter were originally created as a maintenance product for curled hair but are today finding new life as extraordinarily effective conditioning agents for adding softness and manageability to relaxed and natural hair and curled hair.

Sources said percentage growth, in these segments is all strong, ranging from the low- to mid-teens to the low- to mid-20's.

Outside of hair care, some chains are experimenting with hosiery designed specifically for black women and reporting promising results; others are adding skin toners, creamers and cocoa butter soaps to their ethnic section and reporting good results.

AMBI, a line of skin toners, creamers and soaps made by Kiwi Brands, a division of Sara Lee, is now ensconced in the ethnic sections of chains like Walgreens, Revco and Eckerd, and sales seem to be justifying the placement.

Products introduced

Buyers said the jury is still out on ethnic cosmetics, but there are some distributors and manufacturers who believe cosmetics have some of the potential of hair care, because black women need and want brands that are designed to cater to their specific needs and desires. There are new products being introduced that may spark this category. World of Curls, for instance, which is strong in hair care, is introducing its first line of black cosmetics, called Simply Satin.

While acknowledging that cosmetics is a tough area to crack, management sources still insist there is a "niche for black cosmetics" and that many black women are simply "screaming" for a high-quality line just because they can't find what they need on today's retail shelves.

In 1986, chain drug store retailers may be ready to evaluate the potential of such new product launches, since 1985 seemed to be a year of consolidating strengths already gained in the category.

More chains started to follow Walgreens' lead and expand ethnic sections to stores that had black traffic, regardless of whether these stores were in black neighborhoods.

Retailers said they're not just putting in ethnic sections based on the residential demographics surrounding stores, but are also taking into consideration working and shopping patterns in their marketing neighborhoods. Even if a store is located in a white residential neighborhood, chains like SupeRx, Revco, Eckerd, Thrift, Peoples and Dart are adding black sections because they know working or shopping patterns will pull black shoppers into those stores.

Chains expanding ethnic sections

Chains are also expanding their sections as well as the product mix they carry. While Walgreens may still be the only chain that runs ethnic products in every roto, chains like Revco, Eckerd, SupeRx and Perry are promoting ethnic products more and promoting them in different media, such as the roto and newspapers. Revco is even preparing to do co-op advertising on radio, something that industry sources think may be a first for a drug chain.

Thrifty Drug has reportedly become the second major chain to put ethnic sections in all its stores. "What you're seeing," said a source, "is a commitment to the category. Walgreens is telling the black shopper that she can be in any city and yet still find something she wants in their stores. That is a wonderful shopper to cultivate, because black women spend more on cosmetics and toiletries than their white counterparts, plus they also buy other things: toothpaste, stationery, deodorants. Ethnic sections are great ways to build traffic."

Retailers are also making overtures to manufacturers, trying to learn the category better, and are also challenging their distributors to help them determine specifically what the best sellers are and where the section should be within the store.

Distributors are still very important to the chains, but the success of buyers like Richard Robinson, who buys direct for Walgreens, and Ellis Jones, who is now buying for Revco and who worked directly with many manufacturers to learn the category when he was with Eckerd, are creating a new trend designed to put the retailer more in control of the ethnic departments within his stores.

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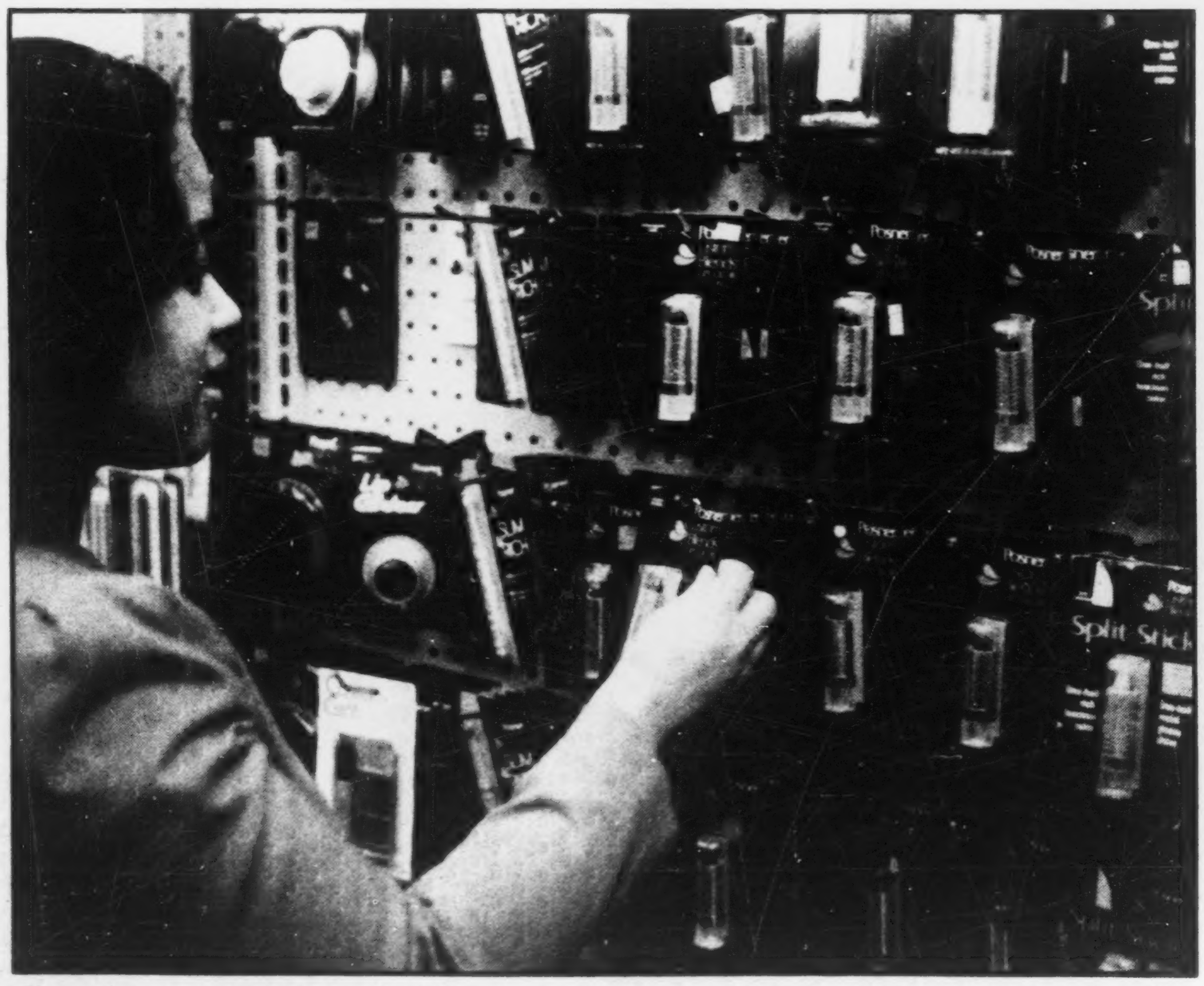


Many buyers say the jury is still out on ethnic cosmetics, but others believe it has the potential of ethnic hair care products.

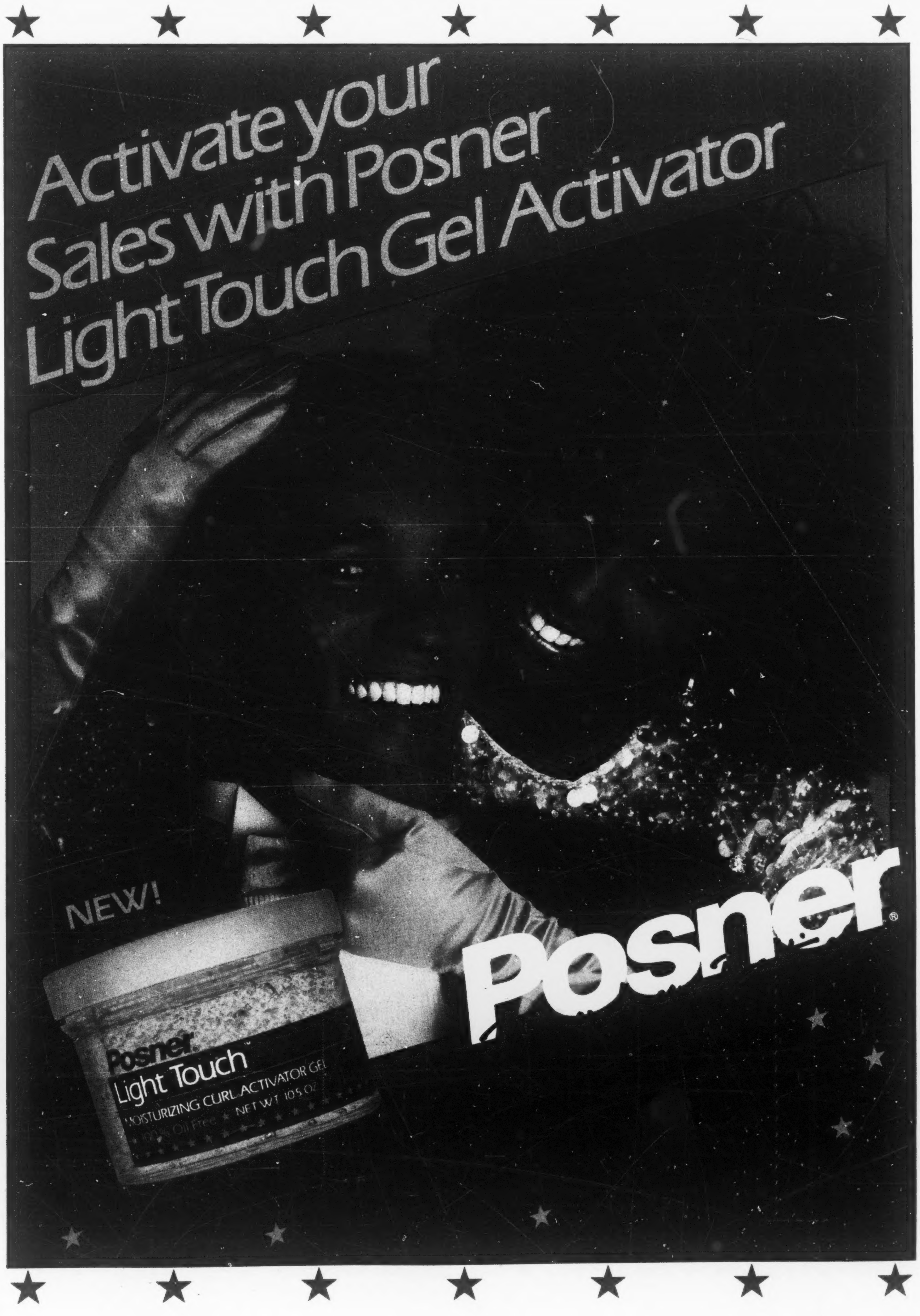
PRODUCTS

Ethnic hair preps: Annual dollar sale trends (millions)*

	Drug stores		Food stores		Mass merchandisers		Total	
	$ sales	% change	$ sales	% change	$ sales	% change	$	%
1981	$100	72%	$38	12%	$28	65%	$166	52%
1982	124	24	45	18	41	46	210	27
1983	138	11	58	29	44	7	240	14
1984	157	14	66	14	26	(41)	249	4
1985	176	12	67	2	23	(12)	266	7

*Retail sales only excluding beauty and barber shops.
Source: A. C. Nielsen

Most growth in the ethnic category has come from relaxers, moisturizers, conditioners, gels and pomades.



Ethnic

Continued from page 85

Manufacturers, too, are trying to help retailers do a better job by staging seminars that give white buyers, cosmeticians or store managers more insights into what black customers need and what they should be buying for their needs.

Manufacturers are also doing more couponing and rebate promotions, and some, like World of Curls, are staging sweepstakes promotions that are modeled after the successful sweepstakes done by such major general market manufacturers as Procter & Gamble.

In general, the outlook for ethnic H&BA sales in drug stores is even more promising for 1986 than it was for 1985. One cloud on the horizon, however, is competition from food and mass merchandise stores, which so far have neglected or underutilized the category

In 1985 and early 1986, there were signs that both food and mass-merchandise chains were rediscovering the potential of his high-margin, billion-dollar segment. Drug stores still had the best overall category increases in 1985, but mass-merchandise stores improved their total category performance over 1984, and food chains hit what some think is the bottom in terms of declining sales.

Both segments are talking to distributors and manufacturers, trying to get a leg up on this category, and drug chains might see some competition coming from their ranks in the near future.

In anticipation of that, retailers and distributors say they believe chains will continue to beef up their visibility in this segment by expanding ethnic sections, rolling them out into more stores, aggressively promoting more products, stressing better and more competitive day-to-day prices, and working to provide better sales service at the point-of-sale.